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Roger Pearson
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The Challenge of Space: Further Strategic Defense Considerations for the United States

James H. Hughes[1]
Englewood, Colorado

Strategic problems of space defense are discussed, and the author warns that as in surface warfare, defense lines in space can be broken by a concentration of offensive forces. Strategies such as Brilliant Pebbles, therefore, need to be supported by defense in depth.

Key Words: Space Warfare, Missiles, ISBMs, SDI, SLBM, Brilliant Pebbles,

Classical military strategy calls for concentration of force to defeat an enemy. In strategy, Napoleon and Marlborough stand foremost among the world's greatest generals. Both understood the principle and exercised themselves to utilize position for concentration by great maneuvers and rapid movement.

Military Strategy

Military strategy is essentially the same for land as it is for sea. The theory of naval strategy, artfully explained and propounded by Captain Alfred Mahan, draws upon the lessons provided by Napoleon, Jomini, Nelson, and other great admirals and generals. Even the brilliant World War II strategy of Nimitz and MacArthur, "island hopping" to concentrate U. S. forces upon the Japanese home islands, was but the piercing of a cordon (a defense holding all points equally without substantial reserve) where the Japanese, as did the Germans, attempted to hold their new possessions in a spirit of determination rather than strategy.

The strategy for air force is not as clearly defined as land and naval strategy. It came into its own with the strategic bombing of World War II that called for the destruction of a country's industrial capacity to wage war. Since World War II, control of the air has been recognized as a requirement for a successful land or naval campaign.

[1] P.O. Box 5295, Englewood, Colorado, 80155

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Strategic bombing eventually resulted in mass firebombing of cities, and atomic bombing of Hiroshima and Nagasaki. With the recent advance of guided munitions and sophisticated satellite and air observation and intelligence, bombing has become specific to key military targets. Air force is a very important adjunct to land and naval campaigns; but its strategy is tied to land and naval strategy.

Strategy for space is similar to naval warfare. Broad expanses of ocean: tremendous dispersion of forces over a wide area: tremendous technological concentrations. These are the units involved. Each uses key ports. Naval stations are like space ports such as Cape Canaveral and Vandenberg. In the future there will be greater accessibility to space, and more space ports because of the single stage to orbit.

A satellite is like a moving ship, but it is also like a landmark in that it usually does not move from its established orbit, except for possibly small or defensive maneuvers. In some designs, such as in spy satellites, it will have enough fuel to move into a substantially different orbit.

The next theater of operations, higher than land or ocean – space – requires strategy. Strategy for space is essentially the same as naval strategy. Both deal with expansive areas. Both deal with military assets of tremendous cost and technological concentration. Satellites cost in the tens and hundreds of millions of dollars, and represent some of the highest and advanced technology of a country: in cost and complexity they are like missile cruisers or submarines.

Space is the largest of all theaters of operation – larger in area than the Atlantic and Pacific oceans, it has greater depth than the Marianas Trench, and greater height than Mount Everest. Many nations have established communication, navigation, weather and observation satellites in space at altitudes of 120 to 22,300 miles above the earth. Yet, the vast destructive power of tens and hundreds and even thousands of megatons of nuclear weapons can cross its distances in moments.

The Strategic Defense Initiative (SDI) of the Reagan administration recognized the theater of space in its efforts to develop a defense against the threat of ballistic missiles. But SDI took the form of research only without deployment. It became research rather than a military application with its attendant development of strategy. The most widely acclaimed missile defense concept which came out of the SDI program, Brilliant Pebbles, called for a large

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constellation of satellites in low earth orbit, with each satellite equipped with small interceptor rockets guided by infrared seekers to defend the U. S. from ballistic missile attack.

Concentration in Application

As a theater, a specific geographic area, space is subject to the same military principles as land and naval warfare. The distribution of Brilliant Pebbles, a cordon of satellites defending space from access by ballistic missiles, can be compared to that of naval task comprising destroyers stationed at equidistant intervals over a sea lane a thousand miles long. A fleet of destroyers positoned in such a way could be systematical destroyed at little cost. and a cordon of Brilliant Pebbles defensive satellites, distributed of necessity in the same far-flung manner, could be punctured by a concentrated attack, such as designed by the former Soviets,

Brilliant Pebbles is brilliant technology. But it is driven by technological considerations, rather than by a strategy of concentration. To combat a constellation of Brilliant Pebble satellites, Soviet military doctrine called for quick victory by overwhelming concentration of destructive firepower in a surprise attack.

In practical matters of programming and operations, a large constellation of satellites like Brilliant Pebbles may be considered for a layered defense, but only after priority is given to the application of strategic principles. The multiple-layer view of a ballistic missile defense would call a large constellation an immediate step of implementation for the construction of a battle-station satellite. Brilliant Pebbles would become a resource which could be drawn from in battle. But, as a resource, only a portion of it could be used in a particular battle, and that as a reserve.

Fleet Type

A second principle of space strategy is developed. Classical naval strategy calls for either a Fortress Fleet, or Fleet-in-Being. The animating thought behind the Fortress Fleet is that the navy has the immediate responsibility to defend key ports. This, naturally, calls for a division of force, and a defensive and limited mode of operation. This is the strategy that was exemplified by the "Flying Squadron" during the Spanish-American War which was stationed to defend a key American port and was useless, because of its position, against

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the Spanish fleet. It is exemplified again by the Russian fleet in the Russian-Japanese War of 1905, when Russia divided its fleet between Vladivostok, Port Arthur, and the Baltic and Black Seas; and the fleet at Port Arthur engaged in primarily defensive operations. The Port Arthur fleet was successful only in offensive operations, when it intercepted a Japanese supply convoy, and attacked Japanese battleships with torpedo boats. The animating thought behind the Fleet-in-Being is that it constitutes a large, effective fighting force which can appear without warning and destroy an opposing fleet or port. It is offensive in nature and operation. It is a projection of power. It attacks. The Fleet-in-Being has been the British model for hundreds of years, and this conception of strategy enabled the British in large part to rule the waves and sustain an empire for hundreds of years. In the Second World War the Germans also made effective use of the same strategy by the aggressive use of their small fleet. Their battleships, pocket battleships, and cruisers caused endless grief to the British. By not being tied to the defense of key ports, the German fleet demonstrated the power of the offense. A Fleet-in-Being moves to threaten and attack enemy forces; it is a military force unto itself. The Fortress Fleet waits to be attacked, and is used in conjunction with other defense forces.

The contrast in thought between the two ideas is that the Fortress Fleet listens to the natural fears of the unprotected and attempts to protect all seaport assets. The other, the Fleet-in-Being, listens to the difficult fact of war: not all points can be defended, and therefore a risk must be taken in leaving some seaports undefended for a moment, in irder to be able to seek out and destroy the enemy and thereby gain a greater advantage.

The analogy is that space assets need to be capable of movement, and able to take an offensive position. The cordon approach, which is exemplified by Brilliant Pebbles, does not lend itself to either concentration for defense, or concentration for offense. Brilliant Pebbles, although brilliant in its technical conception and for practical implementation, is a static strategy.

A Strategic Proposal

What is proposed is the concentration of military strength in battle station satellites in high orbit, preferably geosynchronous, above the U. S. This satisfies the principle of concentration. To

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specifically cover the polar approach of most ballistic missiles, and the threat of sea launched ballistic missiles from either the Pacific or Atlantic oceans, three satellites are proposed.

These satellites are also proposed to be moveable and maneuverable. They would contain sufficient fuel to change their location in hundreds or thousands of miles, and they would contain small maneuver rockets that would enable them to shift position suddenly to better position themselves or evade an attack.

Undoubtedly, because of their distance from ballistic missile trajectories, beam weapons will need to be employed.

Because of their geosynchronous orbit, the three satellites are in location analogous to a map. Their placement over a map would be one over the North American continent, at a fairly high latitude, and the other two at a lower latitude over the Atlantic and Pacific oceans.

This disposition forms a defensive triangle. It covers the north polar, and western and eastern approaches. It would handle ICBM's launched over the pole as well as SLBM's. Three satellites are proposed to cover these three basic approaches, to provide an element of reserve within this system or layer, and to provide flexibility of position. Of course, the range of coverage by any one satellite would be like another's, which adds to the depth of defense.

Low Earth Orbit Geosynchronous Earth Orbit

Should, in the event of war, or its immediate threat, coverage of an area over a foreign country be needed, one of the ocean-covering satellites could be moved to the scene, albeit above in space 22,300 miles away. The ability this would give to the U.S. would undoubtedly put an immediate stop to the ballistic missile threats of countries such as North Korea, Libya, and Iraq. Of course, additional satellites could be placed into orbit. However, for the defense of the U. S., three satellites are proposed.

Also proposed is a requirement for each satellite to attack 3,000 objects in three minutes. The combined ability is on the order of the threat once posed of 10,000 nuclear warheads launched at the same time by the Soviet Union. The scale of the 10,000 warhead threat has been little diminished; the defense design should be based on that number. It is only prudent to allow for a greater degree of safety than at first sight, for a military attack may be greater than anticipated, and a satellite may not work quite as well as expected. Fifteen

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minutes of warfare can be more massive than 15 days of warfare because of the speed of modern missiles. In addition, a defense capable against 3,000 objects in three minutes will also be capable against 300 objects. A defense at this level takes care of the problems of a rogue nation terrorist missile or accidental launch.

For deployment, the multiple-layer view of SDI can be treated as analogous to a reserve system. The Brilliant Pebbles constellation could be treated as a space-based reserve. Exoatmospheric and endoatmospheric interceptors launched from ground-based stations, and perhaps ground based-lasers, would provide a final reserve. A logical pattern for a ground based defense would use a two-fold perimeter and center. The multiple perimeter would provide redundancy, flexibility as well as an inherent ability to provide an air defense, of at least modest proportion. Alaska would need special treatment, as many ICBM's could be more easily dealt with from its high latitude. A disposition might be as follows:

Position

In classical strategy, the holding of a defensive position depends on three items. Is the position of value? Does the position have fortifications? Does the position have natural resources that can be used for defense? These requirements lead to this analysis with a view to space.

A geosynchronous orbit is of great value as a position. It is assimilated into the political boundaries on earth, and provides continuous coverage of a specific area. A constellation of satellites is not needed to cover a specific area. An interesting perspective of the world at geosynchronous orbit is that the map of the earth is "projected" into space.

While not obvious, a geosynchronous orbit does have an advantage in fortification over a lower orbit. Traditional land strategy looks at plains, deserts and mountains - the geography of land. The geography of space looks at difference in height of orbit in addition to orbital inclination and location. A geosynchronous orbit has these advantages:

I. If the battle station is attacked by missile or pellet cloud, there is a 22,300 mile span which provides time for a defense to be employed or for evasive maneuver. Distance provides safety.

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II. If the battle station is attacked by atomic bomb, there is a 22,300 mile span which provides distance for the missile carrying the bomb to be attacked or detonated. As the force of an explosion decreases with the square of the distance, an atomic detonation need not be severe in effect if it is set off at a far distance.

III. If the battle station is attacked by laser or particle beam, the safety of a high orbit is not as assuring, and specific defenses will need to be employed. Nonetheless, the point remains that for the other two avenues of attack, orbital height is in itself a measure of defensive advantage.

Obviously, the battle stations should be designed with counter-measures against a beam weapon in mind. Counter-measures could included zig-zagging, structural integrity, coatings or armor, and size of structure. The use of beam weaponry on a battle station satellite would be an act of war.

In terms of natural resources, no satellite has resources other than solar energy. From a short-term viewpoint, a Low Earth Orbit is better in terms of launch into orbit, ability to damage nearby objects including rockets in a boost phase, and reinforcement from earth. A High Earth Orbit affords more coverage of area and gives more opportunity for defensive maneuvers, but it is more difficult to get to and reinforce. But, in the long term, if there are two resource bases, the earth and moon, a satellite in geosynchronous orbit will stand nearly on the frontier, and is in a forward position. In the long term, it will be able to be reinforced from two positions, earth or moon. In the short term, a geosynchronous position is more difficult to maintain because of the additional distance from earth, but in the long term it should prove itself as successful.

- Geographical positions in space Long Term
- Earth
- Low Earth Orbit
- High Earth Orbit
- Geosynchronous Orbit
- Cislunar Orbit
- Moon

In classical strategy, a geosynchronous orbit offers great position

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and fortification, but in the short term its natural resources will cost more because of the additional distance for material supply or a linkage.

Summary

U. S. defense policy is not to attack first. Therefore, it must be capable of defense. While a space defense does not guarantee military victory, its utility against ballistic missiles and use for intelligence makes it superior to anything else now in use. Whoever makes the effort to control space will also be able to translate that ability into better technology, and advance that nation's commerce and industry.

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The Czech Transition: Politics before Economics

Aviezer Tucker, Jana Balharová, Ivo Losman, Jan Němec, Jan Němeček, David Ondračka, Zdeněk Polák, Roman Skýva, Martina-Vyrkova & Markéta Žídková[1]
Palacký University, Czech Republic

A group of Czech scholars examine the political and economic aspects of the post-Communist transition in the Czech Republic, and find that instead of adopting "shock therapy" to achieve a transition to a private enterprise economy, the Czech leadership concentrated on maintaining full employment in order to ensure the popular acceptability of privatization. However, they note the extent to which former members of the Communist hierarchy were able to benefit from the privatization of public enterprises.

Key Words: Czech Republic, Post-Communist Transition, Economic Privatization, Democratization

The general elections in the Czech Republic in June 1996 solidified a distinctively Western-European style of political culture in the Czech Republic. The ruling center-right three parties coalition composed of ODS The Civic Democratic Party, ODA The Civic Democratic Movement, and the Christian-Democrats received 99 of the 200 seats in the Czech parliament. The Social-Democrats received almost one third of the votes. The Communists received a little more than ten percent and the rightist Republican party a little less than ten percent. The ruling coalition's loss of absolute parliamentary majority should not obscure their winning a slightly increased share of the votes in relation to the 1992 elections; the loss of absolute majority is due to the complexities of distributing the votes of parties that did not pass the 5% threshold according to regional voting patterns in the Czech election law.

The establishment of a stable Western European political system in the Czech Republic is in sharp contrast to the return of former

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[1] Dept. of Politics, Palacký University, Olomouc 77180, Czech Rep. Contact <tucker@risc.upol.cz>. This paper presents the conclusions reached at a seminar on Czech Transition directed by Dr. Aviezer Tucker at the Department of Politics and European Studies of Palacky University in Olomouc at the academic year 1996/7.

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Communists to power in the second post-1989 elections in Lithuania, Poland and Hungary. We attempt to understand here the apparent smooth and successful Czech *political* transition. The most stark contrast is with Poland. Poland had a mass anti-Communist movement that was absent in the Czech Republic, where the dissident movement of Charter 77 numbered 2000 signatories. Yet, in 1993 Poland voted a reformed-Communist government that lost the 1997 elections. By contrast, the Czechs voted fairly consistently in the 1990, 1992, and 1996 elections.

There is a marked correspondence between the Czech public's evaluation of the economic transformation [see graph no.1] and the support for democratic parties. From the founding of the Czech Republic in 1993 until the onset of the economic crisis at the end of 1996, the percentage of respondents that evaluated the economic transformation as unsuccessful hovers below 20%, an identical 20% to the percentage the undemocratic Communist and Republican parties received together. Analysis of the regional voting patterns in the last Czech elections further supports the relation between economics and politics. The greatest support for the government coalition (58.84%) and the lowest support for the Communists and Republicans (11.17%) was in the most economically vibrant part of the country, the capital city of Prague. The lowest support for the coalition (35.7%) and the highest for the Communists and Republicans (24.12%) came from northern Bohemia, the most economically depressed part of the country.[1] Therefore, we try to understand the relations between Czech economic policies and their political effects.

An analysis of the Czech transition may form a basis for deciding if the Czech government has been smart or just plain lucky. Did Václav Klaus' government follow a better policy of transition than other East-Central European governments, or have the Czechs been lucky, having started their transition process with better initial conditions such as lower per-capita national debt, greater geographical proximity to the prosperous West, an unadaptable and an unreformed Communist party unlike as in Poland and Hungary, and an absence of the kind of clericalism that pushed Polish voters to support the reformed Communists. If the first possibility is true, understanding what actually has been happening in the Czech transition may suggest something like a recipe for a successful

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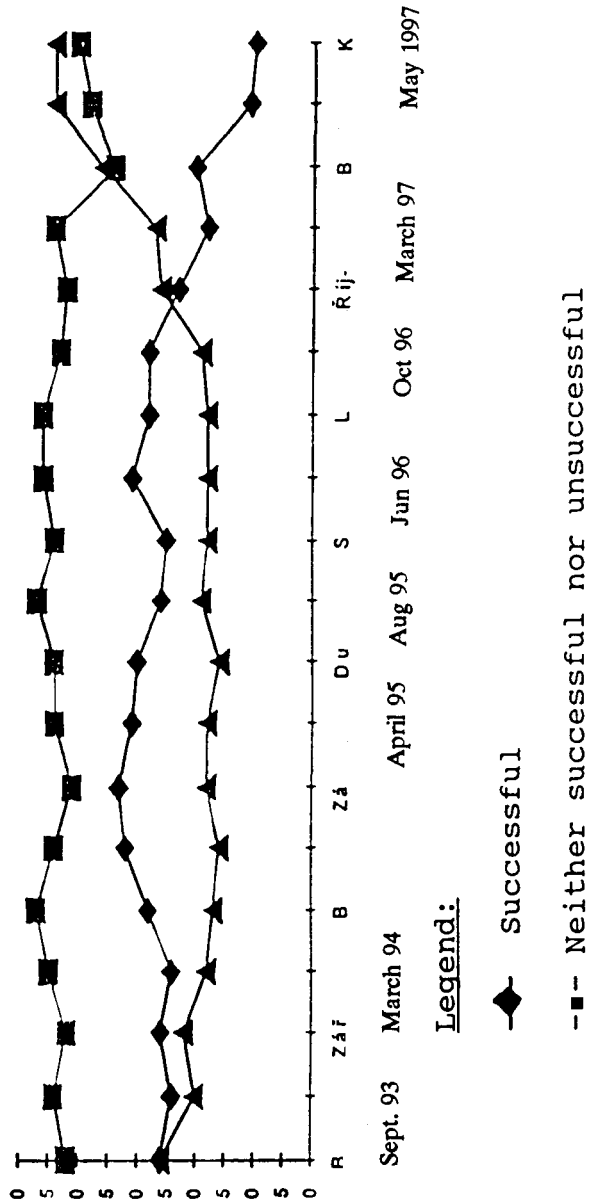
Graph No. 1

Public Perception of the Success of Economic Reforms (1993-1997)



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political transition.

The results of the Czech *economic* transition are mixed. Before the June 1996 elections, Czech Prime Minister Klaus described at home and abroad the economic transition as complete. He claimed that the "operation" is over and "the patient is in the recovery room," promising that there are no more painful measures in store for the Czechs; economic growth at 5% per year and low unemployment at 2.8% will be sustained.[2] Yet, less than a year after the elections, the deficit in the balance of trade rose to over 10%, the pressure on the Czech currency, the Crown, grew and it had to be devalued by about 15% for the first time since 1992. The government had to introduce austerity measures that include reduction in real terms of salaries in the public sector, rise in interest rates, budget cuts in welfare and investment, state support in loans and guarantees to export, a rise in the excise and income tax, but also a four percent cut in corporate tax. Apart of the last one, these measures are likely to cut growth and lead to economic stagnation; unemployment has already risen to an unprecedented height of 5%[3]. Klaus' election promises did not prepare the Czech public for such measures. Consequently, the popularity of Klaus and his government fell to an all-time low. Since the middle of 1997 all polls showed the opposition Social Democrats with a lead of more than a 10% over Klaus' party. Since October 1996 the percentage of Czechs who regard the economic transformation as unsuccessful has been rising steadily after four years of stable 18 percent disapproval to a height of 44 percent in May of 1997 [see Graph No. 1]. To use Klaus' metaphor, the patient is outside the operation room, but it appears that he is waiting to enter the operation room, after being reassured by the doctor that the operation was over.

All the leaders of Central European post-Communist countries faced at the dawn of 1990 three simultaneous tasks: Democratizing society and the political system, restructuring markets and firms, and stabilizing the economy. Governments that attempted to achieve all three goals together had to face high unemployment in countries where the population is perhaps not used to hard work, yet is unaccustomed to being unemployed or occupationally mobile. The Czech case is particularly interesting in this context. Instead of trying to achieve all three goals, the Czech government attempted only democratization and stabilization. We try to prove that the successful

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political transformation was achieved at the price of delaying some of the necessary painful restructuring. This delay had some severe economic bad effects that surfaced toward the end of 1996 and led to an economic crisis. Still, the delay in restructuring may have enabled the entrenchment of Democracy.

There are two common obstacles to understanding the Czech transition. First, Klaus' "Thatcherite" and libertarian rhetoric hides more than it reveals the policies of his government. Since Klaus' rhetoric was far better publicized and known than his policies, political scientists are not always aware of the gap between them.[4] The second methodological mistake is to look only at the economic level rather than at its interactions with politics. Economists who study the Czech economy know quite well that Klaus' policies were not free-market-oriented. However, they limit their analysis to describing and criticizing the Czech policy deviations from the abstract free-market model, ignoring the political effects of the economic policies that in turn affect the economic level. As much as political scientists are mistaken to examine only Klaus' rhetoric, economists are shortsighted in examining only his immediate economic policies. Our analysis must be at once political and economic.

We attempt to demonstrate that the initial purpose of Klaus' economic policies has been political, to create and maintain a sentiment of security in Czech society, assuming correctly that as long as people feel confident in their prospects for employment and in having a safe place to live in they do not turn to the political extremes. When gradual restructuring turned into stagnation, it led to the economic problems that surfaced at the end of 1996.

Czech Policies of Transition

Labor Policies

The starkest contrast between the Czech Republic and East European countries like Poland that went through economic "shock therapy" followed by the return of the Communists to power is the "miraculously" low rate of Czech unemployment. Unemployment peaked at 4.4% in early 1992. By late 92 it fell to 2.5% where it remained until the end of 1996, the lowest unemployment rate in Europe. Since many unemployed are Romanies (Gypsies) among whom nearly half are unemployed,[5] even the tiny Czech

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unemployment had cultural/ethnic rather than economic reasons for unemployment. Patently, Klaus' "Thatcherism" was not very Thatcherite. Czech labor conditions even turned the country into an immigration destination.[6] The other side of the low unemployment is low productivity, when compared to Poland or Hungary. Considering inflation, from 1990 to 1995 Czech salaries grew 6% above the increase in productivity.[7] Low productivity led eventually to accelerating trade deficit that demolished the fixed exchange rate policy. In comparison, Polish unemployment was in 1993 over 15%. Polish productivity rose, but the reformed Communists regained power.[8]

In Cook's opinion, the 3% jobless rate reflected lack of restructuring and bloated payrolls. Shortage of labor hurt the economy because it forces employers to hire less than qualified labor. Full employment causes lack of discipline, and rise in salaries without rise in productivity.[9]

The architect of Poland's short-lived shock therapy, Leszek Balcerowicz, explained the low Czech unemployment in relation to the Polish one by citing various "tricks" of the Czech government. In 1990 the Czechoslovak government stopped paying pensions to those who continue to work after retirement. Consequently, pensioners numbering 4% of the work-force retired. In Poland, no such measures were taken. Czech unemployment criteria are stricter than Polish, and it is paid for six months while in Poland it is paid for one year. The statistical rules are different in the Czech Republic, so citizens that are considered employed in the Czech Republic are registered as unemployed in Poland, eg people who go through retraining.[10] Direct measures taken by the Czech government to prevent unemployment include doubling the income tax after retirement age, thus vacating in Rutland's assessment 300,000 jobs, and extending maternity leave from half a year in 1989 to four years today.[11]

While all these factors are real, we will try to demonstrate that the most effective macro-economic pro-employment policies of the Czech government that delayed restructuring since 1990 were: Actual subsidies, exchange rate controls, and most importantly "privatization" Czech-style.

Subsidies

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Direct subsidies to producers and consumers ended at the beginning of the transition program, leading to a jump in prices in 1991. Subsidies were maintained for farms and railways but eliminated for manufacturing. The government paid for bad loans of enterprises through the creation of a consolidation bank, to allow privatization without debts.[12] But since 1993 "bad debts" of banks and "bad receivables" of enterprises have been fulfilling identical function to subsidies while management continues as before, with soft budget constraints, monopolistic behavior, and until the summer of 1997, no bankruptcies.[13] The absence of bankruptcies is possible through a government policy to bail out failing state and private enterprises and banks, thus preventing redundancies.

The government has been regulating the cost of rents and utilities in municipal houses.[14] Though some state housing were privatized or restored to their pre-1948 owners, rents in magistrate (state) housing continue to be heavily subsidized by the state. The tenants of restored properties enjoy state rentcontrols that create a great gap between the protected rent and what would have been the market rent. In central Prague, tenants pay as little as 5% of the market rent. These measures prevent homelessness and ensure Czechs that they will not be "thrown to the street," give them a sense of confidence about having a place to live, but prevents the new owners of restored real estate to develop it and create a real estate market. 80% of Czechs expressed in 1995 satisfaction from their housing situation.[15]

Yet, the regulation of rents prevents incentives for increasing the supply of housing and creates a problem in housing for younger families. The housing market has not been restructured. In 1995 the government began to slightly liberalize rent regulations by allowing municipalities to moderately raise rents according to inflation, the quality of apartments, and their location. Apartments that have been built since June 1993 are excluded from state regulation.[16] Further rise in rents took place in July of 1997 by as much as 100%, partially as a result of the recent economic crisis that forced the government to decrease public demand and increase its revenues. There is a consensus that the question of rents is basically political.[17] Czech governments cannot deregulate the housing market and demolish housing security that exists today in the basic Citizens' Code legislation, without serious adverse political reaction.

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Exchange Rate Controls

At the beginning of the transformation process, the crown was deliberately devalued at K28 = $1 to increase exports, dissuade imports (both create employment), and make the country attractive to investors. The central bank had intervened to maintain the undervaluing of the Crown. Relatively low inflation [see graph No. 2], high interest rates and stable exchange attracted foreign capital. From 1991 to May of 1997 the Crown has been gradually revalued because exchange rates remained fixed for six years while inflation ran at about ten percent per-year.[18] This revaluation could have been maintained, after the initial boost for the economy through undervalued currency for the first years of transition, had there been corresponding rise in productivity and GNP, but the stagnant productivity forced the recent devaluation to about K33 to the dollar. After the speculative rush, the Central Bank continues to control exchange rates.

Privatization, Czech Style

In evaluating Czech privatization, we should remind ourselves why do economists and others recommend privatization: It founds democracy and personal freedom on a society of owners that balances the power of the state; it raises the efficiency of management through market discipline and competition and by eliminating government interference; creates responsibility of management to owners; raises revenues and ends losses for government budget; allows firms to raise capital, thus helping to develop capital markets and savings; and assists in the social anti-communist revolution by devolving power from nomenclature Communist party management. There are four possible types of privatization: 1. Spontaneous, i.e. the Communist management starts behaving as owners. 2. Giving away gratis the properties. 3. Contracting out the properties to the highest bidder. 4. Selling the properties to local or foreign investors. In choosing a type of privatization, the following considerations are paramount: 1. Speed: Slow restructuring results in short term decisions of management and labor and acceleration in Communist management practices, i.e. theft and embezzlement increase before the new owners arrive. 2. Which typos of firms should be privatized. 3. The extent of state restructuring prior to privatization. 4. And the role of banks and financial companies in the process.[19]

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Today, 15% of Czech properties remain state-owned, 15% (mostly in agriculture) were given to cooperatives, 10% were restored to pre-1948 owners, and the rest was "privatized." Czech "privatization" can be divided into privatization of small businesses and pseudo-privatization of large state conglomerates. Small businesses such as shops, hotels, restaurants & etc. were restored to pre-Communist owners or bought by new owners. There, privatization achieved most of what economists expect, despite cases when new owners bought underpriced businesses and sold stocks and equipment and then returned the businesses to the state after making a profit.

The restructuring of the small business sector created jobs that allowed one quarter of the work force to change jobs since the 1989 revolution. Labor mobility has been from agriculture and industry to the services sector. The industrial sector declined from 46.5% of the labor force in 1991 to 41.6% in 1995, while the services sector grew from 46.6% in 1992 to 51% in 1995.[20] It is reasonable to assume that the workers who lost their jobs in industry and agriculture during this period were absorbed by the growing privatized services sector.

The Czech privatization scheme for large state businesses consisted of distributing vouchers to every citizen who registered for them, more than three quarters of the population. The vouchers could be used to bid for privatized companies or could be sold. The voucher system was launched before the 1992 elections, thus building an electorate with a vested interest in the success of privatization.

Czechs sold or invested most of the vouchers (72%) in Privatization Investment Funds (PIFs). These PIFs had to be approved by the National Property Fund (NPF) following a submission of an offer that specified what they intended do with the properties. Each PIF can own at most 20% of each firm. A typical firm is owned by a group of PIFs and the NPF has a minority share. A few of the bigger PIFs are controlled by known or unknown foreign capital. All other PIFs are controlled by the four biggest Czech banks: Česka spořitelna, Komerční banka, Československá obchodní banka, Investiční a postovni banka, and by the biggest Czech insurance company (former state monopoly) Česká pojištovna.

The four biggest banks were created by functionally splitting the former state monopoly, Státní banka Československá, which controlled 80% of the market. The state still controls the banks through the National Property Fund. Thus, the ownership structure

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of Komercni Banka, the biggest bank, is 48,73% NPF, 28,27% Czech firms, 7,47% Czech individuals, and the rest by foreign investors. The main savings bank, Česká Spořitelna is owned by: 45% NPF, 32% Investiční a poštovní banka (IPB), 14% the Prague municipality, 4.7% Czech individual share-holders and 3% by pension funds. The government maintains control of all the four banks and the insurance virtual monopoly.[21]

> ... the Czechs have now... a "national financial capitalism"... resembling that of Germany, but with a central role of the national government as a "core investor indirectly controlling (via NPF and through the network of its capital shares) more of less the whole economy.... if we want to know what controls a typical Czech privatized enterprise, we mostly find a complicated chain of capital shares in the end thereof being NPF.[22]
> "...the pattern of ownership in the Czech Republic will probably be a variety of state capitalism similar to Germany or Japan. Power will rest with industrial managers, government ministries and banks, all closely interrelated."[23]

The banks are both owners and creditors.

> The ownership control of enterprises was believed to be a key prerequisite of their efficient economic performance. The voucher privatization... seems to lead to results very distant from this officially declared neo-liberal target. The new owners are mostly institutional owners (PIFs) without appropriate managing, controlling and supervising powers. They hold large property in several tens of even hundreds of businesses but only limited qualified professional skills and capacity. And, like in the model of the central planning, they have a lack of information - the information monopoly is on the side of enterprises' managements.[24]

Reed reached similar conclusions:

> Leading Czech banks hold shares in many of the investment funds.... The funds, in turn, hold shares in many of the companies to which the banks lend. Skeptics of "the Czech miracle" warn that banks may hold off on foreclosing bad loans to concerns in which they hold interests.[25]

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King jr. thinks correctly that when there are too many shareowners there are no owners. Company directors do not follow instructions. There is predominant boardroom sloth on the part of directors and non-active share owners; the system does not reward achievement.

> Most big Czech companies are ruled by investment funds, themselves often owned by Czech banks. Far from prodding managers to perform – or sacking them – the funds have grown plump on behind-the-scenes trading and their 2% yearly management fees. In turn, few managers own company shares, giving them little reason to make good.[26]

Klaus' original policy may well have been to postpone the restructuring of some economic sectors until other parts of the economy developed sufficiently to absorb the workers who would lose their jobs. The main goal of the particularly Czech model of privatization is the preservation of full-employment as a politically more significant goal than restructuring or productivity. Society sensed tangible benefits from privatization. Even those Czechs who sold their vouchers received cash from PIFs equivalent to an average monthly salary, while no unemployment ensued.

Nevertheless, the achievement of low unemployment was bought at the cost of delaying restructuring, thereby allowing a good deal of corruption and embezzlement on the part of the managerial nomenclature, something that is in colloquial Czech "tunnelling" – the managerial misappropriation of company funds. Banks have been managing firms not just in accord with the political interests of the government but also according to their own interests: Forcing firms to undertake unprofitable transactions that benefit the controlling bank, forbidding deals with other banks, forcing firms to take over-expensive loans from the controlling banks, and forbidding the firms to issue stocks or accept foreign partners: all of which is against the basic purpose of privatization.[27]

Politically, Czech "privatization" pacified the Communist managerial nomenclature. In all post-communist countries the communists elites attempted to preserve their status and privileges. In the former Yugoslavia they adopted nationalism, in Hungary and Poland the Communists adapted themselves to changing

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socio-economic circumstances to become a viable political force on the left. The Czech model of privatization allowed the nomenclature to maintain its economic, as distinct of political, hegemony. Without control, the management has been tunnelling the properties they manage. Further, the profitability of PIFs investments in privatized companies depended greatly on obtaining inside information on assets, liabilities, and profitability. Such information is not publicly available. But the old networks of the Communist party nomenclature and their inner core, the former networks of the secret police, the StB, can connect investment funds with management information. Frequently, scandals involving Viktor Kožený, privatization and inside trading with some former-secret-police background are divulged in the Czech media. For example, Viktor Kožený the owner of the largest private investment fund, Harvard Investment & Capital (named after the university that bestowed on Kožený an MBA before the 1989 revolution) that dispersed itself in the summer of 1997 fled the Czech Republic and lives in the Bahamas, risking arrest for inside trading if he returned.

Mertík thinks that Czech managers predicted that voucher privatized companies would be controlled by the managers rather than by the owners, and maintained their power by initiating leveraged buy-outs when they could raise the funds, and voucher privatization when they could not, maintaining their power either way. The management class of the late eighties survived the fall of communism.[28]

Kapoor elaborates further on the negative economic effects of Czech privatization; it insulated owners and therefore managers from the market. "Privatized" Czech industry has not gone through restructuring. Until the summer of 1997 when several travel agencies went bankrupt, there had been no bankruptcies in comparison with an annual rate of 30,000 in Hungary. As a result Czechs do not show great rise in productivity, in contrast with Poland and Hungary.[29]

> The government currently has a 25% stake in the banking sector, largely through its holding in the top four banks which together control more than 70% of deposits and loans. This state of affairs has long fed suspicions that the state has used its influence in order to block bankruptcies and lay-offs that would occur if the banks

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began foreclosing on overdue loans.[30]

Czech banks act for political rather than economic reasons. They bail out smaller banks that get into trouble, e.g. Ekoagrobanka. The National Property Fund retains control over some "privatized" businesses, e.g. OKD mines in Ostrava, where it controls the board of directors and management. Consequently, for political reasons, it supports gradual restructuring, not to upset social conditions in Ostrava. Private investors cannot control OKD.[31]

Despite the negative economic effects of the Czech voucher privatization, the net political effect is that there is much less unemployment than there would have been otherwise, and greater feeling of security for employees and managers. In Rutland's opinion, Klaus is more of a pragmatist than a neo-liberal. He prefers social harmony to monetarist considerations.[32]

The "privatization" of the health service followed a similar path. Before 1989 there were two levels of health care, one for the Communist functionaries and another universal one for ordinary people. The level of treatment for ordinary people was partially dependent on a mixture of bribery and "connection-protection." Klaus' government broke the monopoly of the state and allowed private health care providers to operate in the market to offer higher levels of health care. Still, it maintains at the same time a national health service (under a different name) subsidized in part by taxes levied on private health providers. When private health providers get into trouble, the government moves to protect the insured.

Corporatism

In 1991 Czechoslovakia hourly wages were 50% of those in Poland, though productivity was higher. The low salaries were not challenged by a trade union movement. The Czecho-Moravian Chamber of Unions (ČMKOS), that replaced the Czech and Slovak Confederation of Unions (ČSKOS), that had replaced the Communist era Revolutionary Union Movement (ROH), regards itself as a leftover from Communist times, disputes managing properties and giving benefits for their members. Apart from a partially successful strike of railway workers and a failed strike of teachers there have been no strikes or labor disputes.[33] A tripartite council of government, employers, and trade unions was developed to negotiate

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salaries. Organized labor has no political representation in parliament. Following their Communist traditions, the unions regard themselves as semi-official and the workers distrust them. Rutland suggests that in the Czech Republic there is nascent corporatism; trade unions acquiesce in government policies in return for allowing them to keep their properties and operate. "This is very different from the original Thatcherism, which shunned corporatist intermediation and relied on high unemployment to bring labor into line and limit wage inflation."[34] This corporatism is in Rutland's opinion part of the anti-confrontational tradition of Czech political culture. Currently, the Social-Democrats attempt to connect with regional trade unions but this effort is at its infancy and it is far from clear whether it will be successful.[35]

The onset of economic crisis in late 1996 led to the beginning of labor unrest. The government is aware that raises in public sector salaries would ruin the stabilization policies; therefore, it attempts to return to its earlier successful corporatist policies in a council of unions, government, and employers.[36]

Unfinished Transition

The absence of restructuring is even more evident in the state civil service, the security services, the judiciary and the education system. All these bureaucracies have not changed considerably since 1989. The voting pattern in the military and the police is completely different than that of the general population; in the 1996 elections 38% voted for the Social-Democrats, 18% for the Communist Party, 14% for Klaus' Civic Democratic Party, 14% for the Republican party, and 9% for the junior members of Klaus' coalition. Bearing in mind that there is a one-year conscription for males, one notes that nearly half of the Czech defense services support extremist undemocratic parties.[37]

The rule of law demands an effective, competent, impartial and independent judiciary. This does not quite exist yet because the personnel of the communist judiciary system that had no concept of independence or role of law has not been replaced and is engaged today in extensive corruption. Foreign investment that confronts opaque and murky capital markets where the government, the banks, the PIFs and firm managers seem to collaborate in illegally sharing profits has nowhere to turn to because the police and courts will not

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challenge established power. The courts are so overworked that a firm that needs to have its case heard in this century must resort to bribes. Investment has an increasing incentive to go to other emerging markets.[38]

Authoritarian education by incompetent teachers is still prevalent within state schools despite the emergence of some independent schools with higher quality of instruction. The 1990 higher education reform law decentralized universities before they were reformed.[39] Power in the universities lies with a democratically elected senate that elects deans who control budgets and have the authority to hire new people or fire old employees. When the universities were democratized they were full of lecturers appointed according to loyalty rather than competence. University personnel have been electing deans who protect their positions, promote them, and prevent competent teachers from replacing them.

When school teachers demanded higher wages, the government considered the public resentment of teachers associated with the previous regime, and simply ignored them. The strike collapsed soon after it had started. Pilip, the minister of education was rewarded by being appointed the economics minister with a similar task of resisting pay-raise demands from the public sector.[40]

What Will the Government Have to Do?

The present crisis may now force the Czech government to implement the restructuring policies it has avoided for a long time: First and foremost the privatization of the biggest banks and insurance companies. This should have a ripple effect on restructuring the market. It appears as though this privatization will be both gradual and partial – smaller banks first with the government will still keep some control over the privatized banks, e.g. by controlling the largest bank that can in turn control the smaller ones.

The forthcoming entry of the Czech Republic to NATO will require a restructuring of the military. The current argument is whether to phase out conscription and have only a NATO-compatible professional army. Future policy makers will have to consider measures to ensure that the military will serve the elected Czech government and will be found trustworthy by its NATO allies. The replacemnt of personnel in the police, judiciary, and education systems is not even under discussion, but may well become necessary.

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The European Commission demands that the Czech Republic cut its bureaucracy in preparation for joining the European Union.[41] Though Klaus had some time to do all this before the 2000 elections, the political stalemate between the ruling coalition and the Social Democrats would have made further reforms and changes in policy difficult because they would have had to be negotiated with the Social Democrats.

A Recipe for Transition?

From a political perspective the Czech model of transition has been more successful than others. The Czech Republic did not see the return of the former Communists to power and consequently it has been witnessing the unhampered gradual growth of civil society and democracy. In our opinion, this was the result of the distinctively interventionist policies of the Czech government, which acted to ensure the Czech people employment and housing, a fixed exchange rate and low inflation, thereby creating a prevailing sentiment of security and confidence in a better future until the end of 1996. Klaus had the foresight to realize that economic transformation must serve political purposes; otherwise, political forces would render further economic transformation and political democratization impossible. Had the Czech government opted for a more radical Polish-style "shock therapy" economic transition, it would have created high unemployment and a prevailing atmosphere of insecurity and political extremism. The economic operation would have been successful, though the democratic patient could have been dead. An obvious question then is whether the Czech model of transition can be (or could have been) emulated elsewhere.

Poland's "shock therapy" finance minister, Leszek Balcerowicz, blamed the return of the Communists to power in Poland on the worse external and initial conditions in Poland in comparison with the Czech Republic, rather than on his policies. In his opinion, the initial macroeconomic conditions were better in Czechoslovakia, where there was no need to stabilize and restructure simultaneously. But we have demonstrated that the Czechs did not stabilize and restructure simultaneously! They have not restructured major sectors of their economy. Instead, restructuring has been slow and gradual. As statistical evidence about flows in the labor force demonstrates, while jobs were created in banking and trade, other jobs were eliminated

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in agriculture, heavy industry and mining.[42] In other words, the government did not allow for restructuring job loss until new sectors of the economy developed sufficiently to absorb the layoffs.

Balcerowicz continues, arguing that Czechoslovakia had low external debt and a balanced state budget. Indeed, since the Communists in Czechoslovakia did not open to the West, they did not accumulate debts ($500 per capita in 1989 compared with $1000 in Poland and $2000 in Hungary). In contrast to the Slovak economy, the Czech economy suffered less from adverse external conditions because a smaller section of the economy was COMECON related. One can add Czechoslovakia's greater attraction to tourists (as a result of not fighting against foreign occupiers as the Polish did) and preferred geographic position. Economic discontent depends in Balcerowicz's opinion more on initial and external conditions than on shock vs. gradual therapy. The Czechs were also lucky in his opinion because they have not had militant workers such as those of Solidarity.[43]

The nastiness of the Communist regime in Czechoslovakia, an unreformed puppet regime of an occupying foreign power, helped the government of Klaus to survive without serious communist challenge and with discredited unions. But we think that the Polish communists discredited themselves in 1981 just as the Czechoslovak communists discredited themselves during the "normalization" that followed 1968. The Polish unions have been more militant and active than the Czechs, but it is not clear whether there has been a genuine attempt at Czech-style corporatism in Poland. The Polish policy has been far more radical and shock-therapy style than the Czech very gradual restructuring and led to far greater unemployment and the resulting political extremism. It can be pointed that the recent return of the non-Communists to power in Poland and a similar development in Lithuania prove that the former Communists are incapable of offering better solutions and return instead to a pattern of corruption and patronage that leads in its turn to a vote against them. Still, the inability of the reformed Communists to offer better solutions and their management practices should have been no surprise to electorates who had a very long time indeed to become acquainted with their former rulers. The only plausible reason in our opinion for the voting pattern in the second post-communist elections in Poland, Hungary, and the Baltics is a sense of desperation over economic

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insecurity and high unemployment. The gradual Czech policies prevented such a development.

The doctrine of "shock therapy" underlies what can be called "the sleeping beauty theory of capitalism." Once the communist system disappears and stops sedating the economy, it will spring back to life immediately. Better create the necessary conditions for a free market immediately and shorten the birth pangs of capitalism. This doctrine overlooks the fact that what disappeared in 1989 was the Communist ideology, but not the communist class structure and mentality. The nomenclature never heard the bugle call of history. It has been doing what every elite has been trying to do since history began: preserve its privileges in the best way it knows. Accumulation of wealth under Communism was a matter of knowing how to appropriate (or rather misappropriate, the border was very unclear) state funds. Once the time comes for "privatization" they do officially what they have always done unofficially; they take the state properties for themselves, go on getting state subsidies for their businesses (and themselves), and use Western advisers as free market ideological fronts. The only difference is that under the old system everybody was stealing a little and some redistribution was going on along patronage lines. Under such conditions and after decades of cultures that rewarded sloth, laziness and uncreativity, it is not very likely that there would be enough enterprise in the short term to absorb all those who lose their jobs in the process of rationalizing production and increasing productivity. Without any livelihood or foreseeable prospects and in fear of losing their state-subsidized homes, Eastern Europeans voted for a system which they thought they had the experience to manipulate sufficiently to their advantage to feel secure. All this could have been predictable before the first shock-therapist landed in Eastern Europe.

The Czech success secret is the maintenance of a sentiment of security at all costs. The security sentiment is sustained by four economic factors (in descending order of significance):

1. Full employment.
2. Secure housing.
3. Fixed exchange rate.
4. Low inflation.

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Before the currency crisis of May 1997 Klaus had been successful in achieving all these policy goals through government intervention. The only exception is the more than 50% inflation in 1991 as a result of price liberalization. The following policies of Klaus achieved the four goals (in no particular order):

1. State housing subsidies and regulated rent controls.
2. State subsidies to failed businesses to prevent bankruptcies.
3. Low salaries relative to productivity negotiated in a corporatist fashion with the unions.
4. Stable and undervalued currency maintained by state bank intervention.
5. Continued, though indirect, state control of enterprises through ownership of banks that in turn own PIFs and are at once owners and creditors of privatized enterprises.
6. Wide distribution of privatization vouchers to all the citizens.
7. Assuring the economic nomenclature of their continued status and privileges.
8. (Corresponding with numbers 5 to 7): Delay restructuring in the interest of full-employment until economic growth in liberalized sections of the economy can absorb the laid-off.
9. Initiating direct government measures to limit unemployment such as long maternity leave and encouragement for retirement.
10. Free market rhetoric largely for foreign consumption to encourage investment and integration with the West.

It seems that the difficult element to emulate in other countries is No. 3, where the unions and other pressure groups may be stronger, and the politicians not skilled and strong enough to resist their pressures. This may lead to a rise in salaries, high unemployment and inflation. The other nine policies are threatened by pressures from politically insensitive economists who ignore the political dimension and push for an economic shock therapy.

Klaus made the error of going too slowly. After achieving the lowest unemployment in Europe, he could have continued to gradually restructure, phase out one inefficient state industry after another, without too adverse political effects. But around 1994 the restructuring screeched to a halt. Had he continued with the restructuring, there would have been higher productivity, greater exports, and the present crisis would have been averted. Klaus'

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second mistake was in making false promises before the last elections. He should not have so clearly promised that there would be no more austerity measures. Consequently he lost confidence, and the Czechs are not prepared to make economic sacrifices after receiving promises that the transition is over.

Yet, the present economic crisis should not be blown out of proportion. Despite the crisis, the share of votes for extremist parties is not higher. Whatever happens in the next elections, democracy will be just as entrenched. The restructuring reforms that are likely to come are still less severe than the shock therapy of the early nineties in Poland because some restructuring has already taken place over the years. In a sense, Klaus' policy was an argument in favor of *transition*, the idea that it is impossible to move overnight from Communism to free-market democracy. A transition period is necessary.

Endnotes

1. The Czech election results appeared in *Mladá fronta anes*, 3 June 1996.
2. Václav Klaus, "Czeching into Capitalism," *CATO Policy Report*, Vol. 18 No. 2 (1996), 6.
3. Francis Harris, "Emergency Market," *Business Central Europe*, May 1997, 19-20.
4. A typical statement by Klaus is:

> We want a market economy without any adjectives. Any compromises with that will only fuzzy up the problems we have.... The market is indivisible; it cannot be an instrument in the hands of central planners....
>
> I often use the line by F. A. Hayek that the world is run by human action, not by human design. To talk about planning an economic system is to talk in old terms, and I find myself sometimes having to teach Westerners about what the market really means. They often don't realize that they often might need a little market revolution in their own countries.... What we want is to establish the rules of market economy – not to plan its outcome.

Václav Klaus, [February 1990] "Creating a Capitalist Czechoslovakia: An Interview with Václav Klaus," in Tim D. Whipple ed., *After the Velvet Revolution: Václav Havel and the Leaders of Czechoslovakia Speak Out*, (New York, Freedom House (Focus on Issues No. 14, 1991), 149-150.

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16. According to Laws 30/1995 & 274/1995.
17. See the discussions in *Ekonom* No. 12 (1997).
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23. Rutland, Op Cit, 117.
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Vol. 5 No. 29 (1996), 28-29.
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Law, the State, and Republicanism in Ireland

Timothy J. White
Xavier University, Cincinnati, Ohio

The author traces the historic transition of the Irish Republican movement from its violent revolutionary origins, which had sought the creation an all-Ireland "Gaelic" republic forceably incorporating the pro-British, Protestant North, into a modern democratic movement which has rejected the violence of the radically Leftist Irish Republican Army (IRA) in favor of capitalist prosperity within the European Union.

Key Words: Irish Free State, Irish Nationalism, Irish Republican Movement, IRA, de Valera, Marxism, Capitalism, European Union

De Valera ... knew that before the bar of history his name and fame were inextricably linked and threatened by a handful of years' association with a man whose allotted span had been destined to be but a third of his own. He knew that the story of Eamon de Valera could not be told without that of Michael Collins."

(Coogan 1992, 432)

The story of Michael Collins, made famous most recently in a film starring Liam Neeson based on the recent biography by Tim Pat Coogan, illustrates both the complex history of the Irish struggle for independence and the difficulty of achieving a state based on an accepted constitutional order. Michael Collins paid with his very life as a result of the unresolved tension that existed between historic aspirations for a thirty-two county Republic and the more limited achievement of a twenty-six county Free State. The death of Michael Collins signalled the end of physical force Republicanism as an acceptable political ideology in the mainstream of Irish politics just as the martyrdom of Patrick Pearce and those who helped lead the Rising of 1916 precipitated the end of British control of all of Ireland.

This article explores the historical evolution of a state created by terrorism and how this state eventually comes to see terrorism as a threat to its own goals. The evolution of attitudes toward violence and terror as a means of achieving a thirty-two county, island-wide

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Irish Republic has changed in the southern twenty-six counties since the creation of the Irish Free State. While some may argue that there is something unique to the Irish experience this article argues that the logic of state development compels a state to accept the principles and practices that define the contemporary international system. These principles influence the attitudes and beliefs of states and the elites who lead them. States that emerge as a result of terrorism tend to forego historic aspirations of the ideology that brought the state independence as the citizens of the state increasingly clamor for material prosperity, and elites seek to satisfy these new and differing demands. Thus, one can account for the current reaction of the Irish government against terrorism and the violent tactics of the Irish Republican Army (IRA) by the incorporation of this state into the family of nations and the changing ideology of the masses and elites in the Irish context.

The Bifurcation of Irish Nationalism and the Constitutional Challenge

Previous studies have offered an explanation for the changing nature of the Irish nationalist movement (Boyce 1982; Cronin 1983; Fennell 1984; Garvin 1981; McCaffrey 1989). The traditional image of an ancient Gaelic nation that spawned the Irish struggle for independence was reflected in the policies of the Irish Free State and the twenty-six county Irish Republic created by the constitution of 1937. Early Irish nationalism sought to restore or recreate an idyllic and mythical Gaelic society (White 1990, 44-66). This Gaelic world was imagined to have predated British rule and could only flourish if Ireland were free of British rule and cultural influence. The Irish language, the free practice of and deference to Roman Catholicism, the playing of Gaelic games, and the fostering of Gaelic culture more generally would allow the Irish to preserve their unique identity. But how did Irish nationalism in the form of the Gaelic myth influence the political institutionalization of the new Irish Free State once independence was achieved? Van der Helm (1974) maintains that the politics of small peripheral states of Europe, such as Ireland, are more likely to assimilate patterns found in the Third World than those found in the large states of Western Europe. Like many others, I interpret Irish efforts to build a state in terms of concepts and theoretical approaches that have been employed in devising

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explanations for the emergence of Third World states after independence (Kiberd 1995; Said 1992).

Many contend that nationalist revolutions in the Third World context accomplish little except for replacing a "colonial" English or Anglo-Irish administration with an indigenous set of elites. Hence, post-colonial nationalism does not result in a social transformation once independence has been achieved. The same argument is made about Ireland where many claim that the nationalist revolution did little to alter Irish society and politics except to place sovereignty in the hands of Anglicized Irish, albeit Catholic, elites rather than in the hands of English and Scottish colonizers (Girvin 1989). Farrell (1968) insists that the Irish social revolution had already concluded before 1916. Land had already been distributed. A national school system was in place that provided for widespread basic literacy, and the colonial legacy of British rule left an administrative apparatus intact awaiting Irish occupancy.

Although the Uprising and struggle for independence may not qualify as a social revolution, it was a political revolution in the sense that a new regime emerged that sought to rule Ireland based on radically different policies than its colonial predecessor. Which of the differing conceptions of Irish nationality would become the basis of national identification for the new state? How committed would the new state be in fulfilling the ideals of the Gaelic myth? These became the important political questions confronting the new regime. The political factions that emerged in response to these fundamental questions obviously overlapped with the different degrees of cultural identification with the Gaelic myth. Hence, it was this cultural cleavage, not economic factors, that created the initial divisions in the politics of independent Ireland.

Before the new Irish Free State could become fully institutionalized and gain complete legitimacy with the Irish people, the two competing cultural and political groupings in Irish society squared off in a civil war. Although both sides advocated political independence from Britain, those with differing degrees of commitment to the Gaelic myth disagreed concerning the merits of the treaty that would bring limited sovereignty to Ireland. Those, led by Michael Collins, that believed that a twenty-six county Free State was all that was achievable and therefore acceptable defended the incipient Free State regime. Led by de Valera, they believed that the

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twenty-six county Free State was an unacceptable compromise of their ideal of a thirty-two county Republic. As a result, the latter fought against the new regime, using the same tactics and terror that had been used in the fight against Britain. The violence associated with the creation of the Irish Free State follows a common pattern that Cohen, Brown, and Organski (1981) identify in their study of state making. It was only through the violence of the civil war that a consensus could emerge concerning the legitimate use of violence for the cause of a thirty-two county Irish Republic. It was only after the defeat of those republicans wbo advocated vioence in the civil war did the Irish Free State become fully institutionalized. Only after de Valera's decision to abandon his violent opposition to the new Free State and enter the Dail could Irish politics become normalized in terms of peaceful competition for power in a democratic context.

The creation of the Irish Free State and the civil war that followed also conforms to Tilly's (1973) model of revolutions. Two different contenders for power or two competing polities, in Tilly's terminology, claim to be the "true" government. The chances of those challenging the existing government achieving power depend upon the will and capacity of the government to suppress the claims of the competing polity and on the level of popular support that the revolutionary polity may have. While those in Ireland who resisted the treaty clearly posed a threat to the emerging Free State, their resort to terrorism undermined their popularity with the Irish masses. Even if the Irish public had a strong emotional attachment with the cause of a thirty-two county Republic and identified with the image of an island-wide state portrayed by de Valera and his followers, they viewed violence in opposition to the treaty as unacceptable. The Free State had a legitimacy based on its democratic ethos that the Irish had come to respect in their years as British subjects. The Free State also benefitted from several cultural characteristics that the Irish nationalist movement had spawned in the mass public. These unique characteristics of Irish political culture helped strengthen the state by breeding a sense of legitimacy for the new political institutions in society.

The Creation of Constitutional Order in the Free State

Although the Gaelic revival had allowed diverse and often contradictory elements to be incorporated in the Irish nationalist

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movement, political stability characterized the Free State regime by the late 1920s. Even though de Valera submitted and the Irish public approved of a new constitution in 1937, this document bought little change to Irish politics except to break the formal ties Ireland had with the United Kingdom that had remained as part of the treaty creating the Free State. The new constitution was concocted by de Valera to serve as the ultimate demonstration that Ireland had achieved the status of an independent Republic, even if the Irish government controlled only the southern twenty-six counties and did not incorporate the six northern counties which had been settled by Protestant Scots in the sixteenth and seventeenth centuries – who shared no desire to join the Irish, Catholic south. Hence, the political stability of this period of Irish state formation was primarily due to a conservative political culture that had quickly come to eschew violence as a legitimate political tactic and support existing governmental arrangements. Schmidt (1973) claims that an authoritarian strand in Irish political culture helped foster a deference to the new regime. This authoritarian culture and deference came in large part from the structure of the Catholic Church in Ireland and the profound religiosity of the Irish people. The Church hierarchy's traditional authoritarian control of the faithful contributed to the Irish developing a subjective political orientation (White 1990). This deferential political culture yielded effective administration and minimized public demands for state solutions to societal problems. The willingness to obey and submit to the new political authorities was an especially important means of undermining those who opposed the founding of the Free State. The civil war might have lasted much longer and been much bloodier had it not been for this submissive character in the Irish political culture. In addition, the physical force segment of Irish Republicanism might have also endured much longer and with greater popular support if the vast majority in Ireland did not so readily accept partition and the twenty-six county Free State and renounce the violent tactics of Republicans (Pyne 1976).

Beyond a deferential political culture, the small size of the new polity, both in terms of its geography and its population, contributed to a sense of intimacy in the emerging political process that bred legitimacy for the new regime. Elected representatives came from small enough districts that many of their constituents knew them on

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a personal basis. Because of the short distance from Dublin to almost any part of the island, there was a sense of personal connection to the state that would not have been possible in a larger political unit. These personal links between the new democratic leaders of Ireland and the masses were also crucial in breeding legitimacy for the new state (Schmidt 1973). Irish citizens have historically employed their elected representatives as brokers who provide information and access, not necessarily special influence, to the political system (Komito 1984). This brokerage or clientelistic system as some have called it continues to effectively link elected representatives and their constituents to the present day (Bax 1976; Coogan 1987).

Thus, despite the political struggle evident in the Irish Civil War, the continuity of the cultural bases of politics -the pursuit of the Gaelic myth, the subjective political culture fostered by an authoritarian religious tradition, and the intimacy of the relationship between those who governed and those they served -- provided the emerging Irish Free State with legitimacy and a stable political environment in which to operate. The secret of the Irish political success in creating a new state was the existence of a pre-existing and widely accepted national culture. According to Prager (1986), "the Irish example of stability demonstrates the accommodations made by political institutions to already existing social understandings."

The Post-Independence Nationalist Consensus

In a relatively short period of time Ireland had successfully survived a civil war and had emerged as a stable democracy. From 1922 to 1932 a regime that was threatened by republicans willing to use terror to achieve its overthrow allowed those who had been rebels against it to come to power peacefully after free and fair elections. This peaceful transfer of power was a major indicator that Irish democracy would not be fleeting but would endure into the foreseeable future. Unlike many other post-colonial states that later gained independence, Ireland had several advantages that made democracy a lasting phenomenon. The most important advantage the Irish possessed was the societal consensus surrounding the ideals of the Gaelic myth. Statehood provided the Gaelic myth with the political shell that every nationalism needs to survive (Gellner 1983).

Although McMahon (1984) claims that the Free State was a fragile edifice that could not withstand de Valera's fierce Republican

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desires, the institutionalization of the Free State proved stronger than de Valera's popular demand for a thirty-two county Republic. The Free State tamed de Valera to the point where he acceded to take the oath of allegiance to the British crown required by the Free State constitution and thus entered the Dail in 1927. By that time the power of de Valera's personality and the goals of the republicans had become clearly subordinate to the political institutions of the Free State. If de Valera was to alter Ireland's continuing relationship with Britain in the Commonwealth and achieve his goal of a thirty-two county Republic, he would have to work through the democratic process established with the founding of the Free State. By 1932 the Irish public had come to trust that de Valera would work within constitutional means to achieve his goals. The popularity of his nationalist message overwhelmed those who sought to be less antagonistic to Britain and were less preoccupied with attaining the resurrection of a Gaelic society. The long tenure of de Valera's leadership and his personal dominance in Irish politics contributed to national integration by forging a consensus around the dominant national identity, the Gaelic myth. Ireland's cultural and political integration based on the widespread acceptance of the values of the Gaelic myth support the assessments of Weiner (1965) and Van der Helm (1974) that this process of integration is crucially important in promoting national development and political stability. De Valera's strategy of national development was one that did not pursue the materialistic achievement or technological sophistication of the more advanced industrial societies. De Valera sought to recreate the ancient Gaelic world as he idealized it. This strategy of development was based on what Tickner (1986) calls national self-reliance where the nation seeks autonomy in political and economic terms. Tickner uses Gandhi's India as her case study, but de Valera's Ireland fits this pattern just as well. The Ireland of the Gaelic myth would be a self-sufficient agrarian society where the virtue of its people and bounty of the land would be all that would be necessary for happiness. This era of nationalistic consensus surrounding de Valera's tenure as Taoiseach followed a pattern typical of new states whose nationalistic ideology results in economic autarchy and hostility to large foreign enterprises in one's country (Johnson 1971). Seligman (1964) cites charisma, success in democratic elections, and a reliance on the support of traditional groups as the basis of political success

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for elites in a developing society. De Valera utilized all of these mechanisms in his effort to direct national development in Ireland. De Valera became a political figure larger than life, a person who embodied the kind of mythical Gaelic world that most Irish men and women came to desire. His personal popularity won him numerous elections, and his close identification with Irish farmers and the Church provided de Valera widespread support in Irish society. De Valera's leadership also solidified Ireland's place among the established democracies of the world. He successfully converted near unanimous support for the Gaelic myth into the basis of Irish political stability and constitutional order.

Socio-economic Change and a Crisis of Identity

As de Valera's tenure as Taoiseach came to an end, the Irish government embarked on a new program of industrialization that has begun to unravel the nationalist consensus that historically provided political stability in Ireland. Irish nationalism has undergone a profound transformation. The result has been the emergence of a crisis of identity, especially at the elite level (White 1996). Ultimately, de Valera failed to adequately 2criterioninsulate Ireland from a more materialistic conception of life, emanating from outside the country, that inevitably undermined the ascetic values of the Gaelic myth. As first the Irish elites and later the Irish public became more preoccupied with materialistic-consumeristic demands, the Gaelic myth continued to define national identity but lost its capacity to shape national policy. By that time, however, a stable constitutional order was in place and the new more cosmopolitan political culture that was emerging was in many ways even more hostile to the legacy of physical force Republicanism than the political order which had emerged in the 1930s. The Gaelic myth's capacity to organize politics in the southern twenty-six counties relied on the persistence of similar social circumstances that fostered its hegemony in the post-independence period. As Swidler (1986) argues, the culture of a society independently influences action in "settled" periods when social consensus around a common national myth is unquestioned and respected. However, the extant political culture tends to remain unquestioned to the extent it meets existing social needs (Aronoff 1983). As social circumstances change, the culture of a society becomes unsettled. Behavior may begin to deviate from prescribed

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patterns and thus need not follow the traditional imperative of the dominant political culture (Barnes 1988). As elites or the masses perceive that a society is unable to compete effectively with others, they begin to question the policies of the government in light of this comparison. A crisis of identity and legitimacy ensues (Pye 1971). As Barnes (1988, 6) posits,

> [T]raditionalist or conservative ideologies present idealized versions of tradition, hence they may stimulate change because a critical examination of any particular society is certain to reveal sharp divergence between reality and ideologically-based expectations, even traditionalist ones.

As elites and the mass public in Ireland lost their fascination with the Gaelic myth and the contemporary materialism of the external Western world became more attractive, the nationalistic culture became less important in organizing politics and in determining political behavior (Finnegan 1983; Tobin 1984). The inability of the Irish economy to provide prosperity elicited new and different demands on Ireland's governing institutions. The state now had to divert its attention from its traditional goal of endeavoring to recreate a Gaelic Ireland to satisfy the new clamor for consumer satisfaction. Although many present Sean Lemass as the great modernizer, as the central figure in an elite-led revolution, Lemass was something more than an economic liberal who sought to industrialize the Irish X economy at the expense of traditional nationalistic policies. Lemass and his supporters recognized that in the most recent era only the state would be able to coordinate and promote economic development in an increasingly interdependent world economy (Bienefeld 1982). At the same time Lemass was de Valera's closest political confidant until he succeeded the great nationalist hero as Taoiseach in 1959. He valued highly those values associated with the Gaelic myth and sought economic prosperity that would not conflict with or destroy the traditional nationalist ideal (Bew 1982). It is clear, in retrospect, that Lemass did not succeed in this task, for the Gaelic myth clearly has less influence on contemporary Irish politics.

The new materialistic mentality of the Irish proliferated as the material standard of the Irish began to dramatically improve in the

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1960s. In the period of state formation and post-colonial nationalistic consensus the standard of living of the Irish stagnated. De Valera was an extremely popular leader even though he did not improve the materialist standard of living of his citizens. His record of economic performance and his policies of protectionism and exclusion of direct foreign investment are no longer recipes for popularity in the Irish political context (Tobin 1984). As has been the case in other developing societies, the improved material life-style of the Irish since the late 1950s has elevated their materialistic expectations and demands made on the government.

Two important factors were crucial to converting Ireland into a democratic society successfully experiencing dramatic economic growth. First, de Valera's era of nationalist consensus forged a strong state, and secondly, Lemass' economic industrialization and modernization policies utilized this strong state to promote economic growth and improve the material living standards of the Irish people. Historically, scholars have associated the kind of economic growth and social modernization that Ireland has experienced over the past several decades with political development (Lipset 1959). However, Walton (1972) and many others have uncovered empirical evidence that economic and political development are not necessarily perfectly correlated. In fact, Huntington (1965 and 1968) and Olson (1963) have shown that economic modernization may actually undermine the political stability of a regime. There is no guarantee of inevitable progress as many developmental theorists had assumed (Huntington 1971; Mazrui 1968). In fact, Huntington (1965 and 1968) contends that economic development leads to political decay and instability when the political institutions of a society are not adaptable, complex, autonomous, and coherent. The cultural context often determines whether political institutions can meet these criteria for development and stability (Ben-Dor 1975). In the Irish case the state has grown in size, diversity, and complexity. This state has to perform different functions than in the past, but it operates within a stable and accepted constitutional order.

"The Troubles" in the North: Implications for the South

Ireland's desire to achieve the material prosperity of its new partners in the European Union, and the economic benefits it has received as one of the largest beneficiaries of financial aid it has

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received from the European Union (financed primarily by Germany, Britain and France in that order), together with investment from Europe, has led it to be a leading member of the push for further European integration. The Irish recognize that the material prosperity they now enjoy is at least partly due to their membership in the European Union. As part of their membership in the European Union as well as through separate negotiations, the Irish have sought to improve relations with Great Britain and develop a common strategy to bring peace to Northern Ireland. The common membership in the European Union has proven especially beneficial for the Irish and makes the issue of territoriality and the problem of the border more soluble as integration in the European Union continues. The levels of cooperation between the two governments have reached unprecedented levels due in large measure to changed attitudes and policies on the part of the Irish government toward the British. Instead of continuing to define Britain as the colonial master and the source of the problem in Northern Ireland, the Irish have come to a more realistic understanding of the problems of the North. They now recognize that the problems of the North do not rest completely with Britain. Much of the conflict is internal to the Northern Ireland polity itself. Hence, the Irish relationship with Britain has moved from the post-imperial phase to that of multilateral interdependence (Keatinge 1986), and all Teasigh since Lemass have supported his policy of functional cooperation with the British (Arthur 1983). It is clear that the future of Northern Ireland and the stakes for the Republic are based on a complex interaction between the Irish government, the British government, and all of the parties in the North. The Irish government is clearly committed to a peaceful process of negotiation to deal with the problems of the North. Irish governments have renounced and condemned the use of violence to achieve a thirty-two county Republic. Through immigration and a higher birth rate, the minority of Catholic Irish living in Northern Ireland has now grown to represent one third of the total Northern Irish population, and will seemingly one day reach parity with the Protestant, Scottish-descended majority.

Conclusion

While Kissane (1995) and others have begun to critique the post-colonial interpretation of Irish history and politics, I believe this

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interpretation provides the only basis for understanding the initial violence that characterized the founding of the Irish Free State. An appreciation of how the bulk of the Republican movement abandoned the path of violence and entered the Dail with de Valera in 1927 explains how democracy became consolidated. The attempt to realize the Gaelic myth through governing rather than through a violent struggle put the physical force segment of the Irish Republicanism outside of the political mainstream. That is why today the Republicans in Ireland are no longer associated with the historic Republican movement but are instead seen as a response to the contemporary repression of the nationalist minority in the North of Ireland (McIntyre 1995). Indeed, the Irish Republican Army's Marxist and radical Leftist ideology places it outside of the traditions of Irish nationalism and of contemporary Irish capitalist ideology. Clearly, terror continues to play a part in the politics of the North, but a consolidated democracy and relatively aloof polity in the South has rendered the Republican tactics of violence shocking and a source of dismay to contemporary Irish nationalists in the South. Indeed, the Irish Republican Army's intermittent ceasefires were not caused just by events within the North or the imminent prospect for a negotiated settlement in their favor. Bombing campaigns alienate potential support for the cause of a united Ireland in the South because the violent means used to pursue the republican political agenda is unacceptable. Hence, Ireland is now divided, not just in territorial terms but in its tolerance for terror.

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The Role of Tradition in Modern Societies: A Sociological Discourse

T. Mohanadoss
University of Freiburg

The author examines the manner in which traditions are transmitted, modifed and even invented in modern, increasingly multi-ethnic, societies in order to provide a necessary degree of social cohesion.

Key Words: Tradition, National Identity, Multi-Ethnic Societies, Cultural Transmission, Hinduism

Some find tradition like the proverbial bag of salt on the back of the donkey which wanted to cross a river, and some others perceive it as a beauty of the past that is to be treasured forever: for some, tradition is a cataract in the eyes of humanity, while for others it is the eyes themselves (Szacki, 1969: 17). Some tend to eulogize everything that is traditional, while others are too ready to condemn everything that is traditional. Perhaps the issue here is the relation between the past and the present, between continuity and change and the creative ambiguity inherent in the relationship, because an overcritical attitude is as harmful as blind obeisance (Sinha, 1988: xiv). The object of this paper is to focus on the dynamic aspect of tradition within the context of nation, community and identity. A preliminary discussion of nation, community and identity provides a backdrop for an analysis of the dynamic aspect of tradition. In the course of this study an attempt is made to delve into the three components of tradition: the emergence of 'invented tradition', the appearance or disappearance of negative tradition and the little and great tradition with specific reference to India.

Nation - Community and Identity

Nation is a modern phenomenon arising out of specific modern conditions providing a possibility for a large participant culture. Nation is neither immemorial nor self-generative but a construct. Nation-building, according to Karl Deutsch, was the result of the twin processes of communication and social mobilization (Smith, 1988: 5).

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The emergence of nation-state is generally attributed to three related processes of centralization: "the emergence of supra-local identities and cultures ('the nation'); the rise of powerful and authoritative institutions within the public domain ('the state), and the development of particular ways of organizing production and consumption ('the economy')" (Grillo, 1980: 1). Setting aside the various disputes[1] regarding the nature of the relationship between these three processes, it can safely be remarked that the forging of identity – more specifically in a pluralistic society, simultaneously creates diversity. As it is evident from the break up of the former Soviet Union, the anti-national rebellions in giving birth to new nation states have attained respect and recognition as successful nationalist movements. In the words of Peter van der Veer, "the centralizing force of nation building itself sprouts centrifugal forces that crystallize around other dreams of nationhood: nationalism creates other nationalisms - religious, ethnic, linguistic, secular - but not common culture." (1994:14-15). The differences in pluralistic societies and the consequent attempts towards centralization and homogenization contain also the seeds of heterogenization because of the explosive dimension inherent in the tradition of smaller communities. The explosive nature of their traditions irrupts powerfully when they are pushed to the periphery and when their very existence is under threat.

Smith speaks of two overlapping concepts of nation. The first view – civic or territorial – is very much a western conception. As per this understanding, the following four vital spheres constitute a nation: territory, law, economy and education. The other view perceives nation as named human populations with claims to a common ancestry, a democratic solidarity, common customs and languages and a common native history. The features that figure in the latter conception of nation are, according to Smith, precisely those features of community which define ethnicity and ethnic identity. He defines an ethnic community as "a named human population possessing a myth of common descent, common historical memories, elements of shared culture, an association with a particular territory and a sense of solidarity" (Smith, 1988: 5). Smith's view provides a more general perspective. It accepts the fact that a nation is a modern construct found only in modern conditions, and on the same vein asserts that it is not a wholly modern construct because it

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requires pre-modern ethnic elements. Hence, nations are formed out of civic and ethnic components. Obviously Avijit Pathak is right in stating that a nation remains abstract and empty without a living, concrete experience like family, ethnicity, religion and language (Pathak, 1991: 53).

The story of the new nations like India, Indonesia and Nigeria manifested the necessity of creating overarching loyalties that would transcend the more primordial ones like ethnic membership, religious affiliation and linguistic identification. But these loyalties are neither blind nor are they easily replaceable. Apter rightly points out, "Race, ethnicity, religion, and language are the means whereby people identify themselves, organize their community, find meaning for their sentiments and express their beliefs. All critical elements of man in society appear to be touched in some important manner by each of these matters" (1986). Indeed it is a community that gives its members an identity and thus provides a situs in which to define themselves individually. Identity is perceived in a dialectical process or experience: how a community sees itself or is seen by others, how it contrasts itself and its character as against each 'other,' and how it perceives and selects its history[2] (Dalmia and von Stietencron: 1995: 17). Thus identity indicates who some one is and also provides one a sense of belongingness while simultaneously setting one apart from various 'others'.

In different words, "Identity is a matter of the outs as well as the ins .... ethnic identification arises out of and within interaction between groups" (Jenkins, 1997: 11). Jenkins finds significant similarity of perspective in the views of Everett Hughes and Clifford Geertz. For Hughes, an ethnic group is one wherein "people in it and the people out of it know that it is one; because both the ins and the outs talk, feel and act as if it were a separate group" (1997: 10). Geertz's elegant definition of ethnicity reflects the dialectic polarity between ins and outs, and between similarity and difference. Ethnicity is the 'world of personal identity collectively ratified and publicly expressed' and 'socially ratified personal identity' (1973: 268,309).

Clifford Geertz calls these 'loyalties' primordial sentiments. He asserts that a state is built on fellow-feeling, which is a feeling of corporate sentiments of oneness. When the members of a state are charged with corporate sentiments of oneness they begin also to experience their belongingness to one another. This fellow-feeling, or

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'we-ness' binds together those who have it strongly, overriding all differences arising out of economic conflicts or social gradations and as well severs them from those who are not of their kind. The existence of this fellow-feeling or we-ness, Geertz understands, as the foundation of a stable and democratic state (1986: 110). Probably, to hold the view that the sense of nation emerges powerfully as a tangible experience when it is confronted with the 'other' is also not far-fetched. For instance Rupert Emerson holds the view that when the chips are down a nation effectively mandates its members' loyalty, setting aside the claims of the smaller communities within it and those ties which cut across it or potentially enfold it within a still greater society (Connor, 1990: 98).

Tradition

The term 'tradition' is studded with innumerable interpretations. Without going into different definitions of tradition, it suffices here to say that in the common usage the term tradition means the same as 'something from the past'. Durgan and Sinha characterize tradition as the accumulated experience of a community which provides a base as well as guidelines to its members through its beliefs, rituals, attitudes, values, customs and institutions (1988: xi). Tradition comes into play whenever one refers to any link between the present and the past. Jerzy Szacki, a Polish sociologist, perceives tradition not simply as any type of link between the past and the present, because only that aspect of heritage that is viewed as necessary and relevant can in reality force its way into the present. In the words of Szacki, "Only that is remembered and preserved which is actually important to the group, and the whole rest is irreparably forgotten" (Szacki, 1969: 20).

The subjectivist element in Szacki's conceptual scheme of tradition appears clearly when he stresses the highly malleable nature of tradition and the way each generation can select a certain heritage, evaluate, reform and adjust to its present needs. According to this perspective, a tradition must be continually reshaped and revalued to meet the changing situation of a group if it is to survive as tradition. Further, when heritage fails to supply convenient items, these may even be invented. The invented ones may be in opposition to the sentiments of the inherited tradition; what is important is that they are attuned to the prevailing psychological climate (Smolicz, 1974: 76).

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A useful illustration of how a generation selects a certain aspect of its heritage and attempts to adjust it to its present need is the way Lokmanya Tilak, a great nationalist leader, used the feast of Ganesh caturthi during the freedom struggle. Ganesh is the elephant-faced God in Hinduism. This Ganesh caturthi feast is celebrated in August-September every year. Tilak revived this feast as a means to bring the hindu community together (Anand, 1991: 74-76; Karmarker, 1956: 113). Although Tilak belonged to Chitpavan community, a priestly class in the hierarchical hindu caste system, he did not choose the Saraswati feast,[3] which has its origin in the great tradition, but instead chose the Ganesh feast which belongs to minor tradition (Anand, 1991: 77). He selected it from the cultural heritage of the masses in order to fit the specific needs of his time. Tilak realized the necessity, in the words of Pradhan, "of giving a deep-rooted cultural basis to the political movement by breaking through the routine of the somewhat academical nature of the Congress movement, and he strove to bridge the gulf between the present and the past and to restore continuity to the political life of the nation" (Pradhan, 1959: 83)

Tradition consists of three components: how a tradition is transmitted, what is being handed over, and the nature of involvement of the participants. Szacki speaks of these three dimensions of tradition as three complementary concepts of tradition: Social transmission (tradition in the functional sense), Social heritage (tradition in the objective sense) and Tradition (in the subjective sense) respectively (1969: 17-19). The first focuses on the act of transmitting certain values of a given community from generation to generation. The way these values are transmitted can take innumerable forms, for instance, orally or through the press, mass media, performing arts and the celebration of festivals. The second dimension of tradition emphasizes the content of tradition. It is the accumulated and accumulating storehouse of a community's systems of beliefs and rituals, values, attitudes, customs and institutions. The third stresses neither the act nor the object of transmission but the attitude of a given generation to the past and consequently its approval or disapproval of a certain aspect of its heritage. For instance, the disapproval shown by the British public toward the traditional practice which ruled against hoisting the flag over Buckingham Palace following the death of Diana, the Princess of

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Wales, was no secret. The importance of the third dimension of tradition comes from the conviction that it is illusory to believe in the possibility of being *in toto* faithful to one's earlier generations, as that would mean living in their socio-cultural world.

Tradition is often taken for granted in common parlance as something which man uses to replace reason, but frequently it happens to be an object of complex intellectual operations. Szacki points out two types of intellectualization. He ascribes one to E. Husserl and the other to Bert F. Hoselitz. The intellectualization of tradition on the strength of the statement that a given pattern would be good even if it were not traditional goes to Husserl's credit, whereas the other type, namely, the intellectualization of tradition *qua* tradition is attributed to Hoselitz. However both these processes of intellectualization take place in the social consciousness. Szacki points out another process of intellectualization which is unlike the above-mentioned two types. He explains briefly: We have a rational pattern of behavior, and we try to provide it with a tradition of its own. Behavior patterns which for some reasons are accepted as rational must for some other reasons be presented as complying with patterns to be found in the past (Szacki, 1969:29). It is so because, a community has a tendency to accept something more willingly when it is shown as rooted in the past and this tendency is more prevalent in traditional societies. L. Krzywicki's concept of historical substratum, which Smolicz refers in his article, is here in place. According to him it is a sum total of passive factors in one's social heritage, which is capable enough to arrest the rise of new social movements by restricting the freedom of the individuals (Smolicz, 1974: 76). His understanding of social change seems to be too narrow and in opposition to social change and new innovations.

The dynamic concept of tradition perceives tradition not as a sum total of historical substratum, inevitably bound to be backward looking and conservative, but as a forward-looking activity which seeks its basis in the accumulated experience of earlier generations. "It is tradition which offers a framework in which to breathe, and an invitation to play our own part .... The very wholeness of tradition in which we live certainly demands much of us" (Chandler, 1997: viii, ix). Tradition as a forward-looking activity in a dynamic continuity with the past is free from suffocation and superfluity. For, openness without rootedness is superfluous, and rootedness without openness

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is fanaticism. Therefore tradition is not necessarily to be seen in opposition to social change and innovation. "A tradition can only survive the vicissitudes of time and continue to flourish if it accommodates itself to the present" (Smolicz, 1988: 387). A healthy relationship of the past (tradition) with the present is brought into being through three processes: through a reinterpretation or modification of cultural heritage to the contemporary situation, through the influence of other cultures, and through the influence of creative developments and inventions within the given society. When a society is open to these processes its tradition will cease to be a burden of the past. The relationship between the past and the present should not be viewed as a one-way traffic directed towards modification of the past. A healthy relationship between the past and the present also implies that the present is confronted and challenged by the past – by the core values of the nation's culture. Thus cultural continuity between the past and the present gives due respect and importance to both the present and the past, allowing the necessary space and freedom for processes that are mutually complementary.

The notion of cultural continuity brings us to the question of the fundamental elements of culture or the core values of a given culture. When one perceives of culture as a static concept, then the core values of a culture appear to be immutable in nature; but when culture is perceived as a continuing accumulation of social heritage then one comes to the conclusion that the core values of a culture also undergo changes in their nature and as well in accordance with the interpretation given to them by successive generations (Smolicz, 1988: 396). Thus, referring to Hinduism, Dalmia and von Stietencron explain tradition as "an entity that is neither a permanent unchanging heritage of the past, nor entirely fictitious, but constantly being selected and modified in response to social change and to visions of the future" (1995: 21).

The questions that have to be honestly faced are the following: what are the core values and how important are they for the identity of a given society? How stable or fragile are such core values in the contemporary time? How persistently they are activated or reconstructed?

The subjectivist interpretation of tradition understands the term 'handing down' in a metaphorical sense because of the modification a culture undergoes in the process of social transmission. Each

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generation makes its own selection of elements from its heritage, making the new elements again and again the basis for valuation, changing approvals into disapprovals and vice versa, or simply becoming indifferent to what used to be key issues. Consequently, this view admits the possibility of creating tradition that would be not the valued part of the actual heritage, but the valued part of an alleged heritage. There are examples of traditions which are either pure fantasy or which have little agreement with the past (Szacki, 1969: 29).

Eric Hobsbawm and Terence Ranger call this phenomenon "inventing tradition". Inventing tradition is essentially a process of normalization and ritualization characterized by reference to the past. According to Hobsbawn 'invented tradition' includes both traditions that are consciously constructed and formally instituted and traditions that emerge in a less easily traceable manner but which establish themselves with great rapidity. The goal of invented tradition is generally to establish continuity with a suitable historic past, a continuity that is largely fictitious (1988:1-13),

The earlier part of this paper referred to the phenomenon of modern nations as largely artifical constructs, and also pointed to the the search for establishing 'overarching loyalties' in the process of such contemporary nation-building. Consequently the modern nations of the world cannot be adequately understood without paying careful attention to the invention of tradition. The nation-state, national-symbols, histories, and multi-ethnic societies are comparatively recent historical innovations. Hobsbawm points out that plenty of today's political institutions, ideological movements and groups were so unprecedented that even historic continuity had to be invented; entirely new symbols and devices came into existence as part of the attempt to create these modern national movements and states. On the richness of these emotionally and symbolically charged, invented symbols, Hobsbawm says, "The national flag, the national anthem, the national emblem are the three symbols through which an independent community proclaims its identity and sovereignty, and as such they command instantaneous respect and loyalty. In themselves they reflect the entire background, thought and culture of a nation" (1988: 11).[4] No in-depth study of national phenomena can be achieved without giving due attention to the 'invention of tradition'; the modern 'nation' is a construct which relies heavily on the

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possession of appropriate symbols (Hobsbawm and Ranger, 1988: 14).

Another important aspect of the subjective interpretation of tradition is the negative evaluation of tradition. Members in a group never shape their attitudes in a vacuum; while developing their attitudes they also take into consideration the attitudes of other members. George Allan in an autobiographical tone writes, "I live together with other human beings in a community that has distinctive traditions. Those who comprise my social group share particular conditions and undertake or permit characteristic activities. We believe certain things to be significant, and we act on the assumption that certain things are right or useful or opportune. Other communities of people arrive at quite different conclusions, accepting beliefs which we reject, legitimating actions which we prohibit" (1986: 67). Different social groups tend to espouse different traditions and if such groups are in an antagonistic relationship to each other, the positive tradition of group A becomes a negative tradition of the members of group B.

Three points must be mentioned with regard to the negative evaluation of tradition: (i) In a plural society there is never a shortage of such alternative and competing traditions. (ii) Changes in these evaluations do not remain constant. They depend on the political, social and economic status of the group. This partly explains why the content of cultural tradition grows continually, so that each social group within a society comes to be particularly influenced by systems of ideas belonging to different periods in its development. Consequently what was greatly esteemed in one period may not enjoy equal favor among all groups in another period. (iii) Changes in the negative traditions of the various groups in a given society are probably an excellent indicator of inter-group relations and also of the status of a given group within a given society (Smolicz, 1974: 81).

In a plural society, minority groups usually manifest a tendency to abandon their traditions in favor of the majority group's tradition. Szacki calls the minority groups the new recipients of currently respected tradition of a wider community. The process of Sanskritization in the history of social change in India can be cited as an example (Srinivas, 1966). Popper holds the view that this break from one's tradition is in reality not a freeing from the bonds of tradition but only a change from one brand of tradition to another (1963: 122). A particular group's interest in switching its loyalty to

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another tradition has to be seen within its historical context (Szacki, 1969: 30). However, one should note that highly complex plural societies with different ethnic strands seem to underplay the value of cultural continuity, precisely because the reconstruction of the past often tends to be incoherent. Therefore competition between different traditions makes any appeal to cultural continuity and to the past unattractive and ineffective. The wider the cultural diversity in a given population, the greater will be the difficulty in attempting to see its past as a monolithic block.

The first of the above-mentioned three observations, namely, 'plural society with alternative and competing traditions' leads us on to consider Robert Redfield's comments on 'little and great traditions'. Redfield asserted that every civilization consists of traditions. That of the elite, of the reflective few who give it formal articulation, he termed 'great tradition'. That of the unlettered mass of the folk, he christened 'little tradition'. Redfield assumed that all civilizations began with an orthogenetic or primary process of growth and kept on transforming themselves through heterogenetic contacts as they moved toward a more universal form of civilization.

Milton Singer and McKim Marriot applied Redfield's approach to study the social change in India. Milton's statements about cultural change in India can be formulated in the following way: 1. He asserts the continuity of India's great tradition with the little tradition because he holds the view that India's primary or indigenous civilization had been fashioned out of pre-existing folk and regional cultures. 2. This cultural continuity is an outcome of a common cultural consciousness, which most Indians have in common and which they express in essential similarities of attitudes and ethos. 3. He attributes the formation of this common cultural consciousness to the influence of certain shared factors and processes, such as common sacred books and objects, and a shared appreciation of a special group of literati and other agents of cultural transmission. 4. In countries like India, cultural continuity with the past plays an enormous role that even modernizing and progressive ideologies had to be traditionalized. Further, he also concluded that the resilience of the Indian tradition is such that changes take place in it through selective adaptation rather than basic transformation (Singh, 1986: 13-14). Dube criticized Singer's dichotomization of traditions as insufficient, stating that traditions in India are organized not in a

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bipolar but in a multi-polar system. Dube postulated a six-fold classification of traditions. They are: the classical tradition, the emergent national tradition, the regional tradition, the western tradition, the local and sub-cultural traditions of social groups. However, Yogendra Singh, a sociologist from Delhi, criticized Dube's classification as unsatisfactory because his classification stands again on an ad hoc and nominalistic principle. Singh remarks further that in substantive realm the emphasis is more on culture than on social structure (Singh, 1986: 16).

Conclusion

Tradition is a social fact and it has been understood differently. The course of this study has sensivitized to the different dimensions of tradition, highlighting the fact that tradition cannot be regarded as simply any type of link between the past and the present. It also requires an active display of sentiments of acceptance or rejection. The relationship between continuity and change in tradition primarily depends on the key issue of core values of a given society. The future debates centered around the question, "Was it (tradition) the repetition of earlier patterns, or the recognition that the past is a story of change, accepting the invitation to develop what we inherit in certain ways?" (Chandler, 1997: vii) and consequently the discussions on the nature of tradition, its boundaries and viabilities for change and development cannot be conceived without reference to the nature and viability of core values of a given society. Indeed, an understanding of nation, community and identity is more intimately related to the dynamic concept of tradition than one ordinarily perceives it to be.

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1. Regarding the disputes over this issue See: Van der Veer, 1994: 14-16; Gellner, 1983: 57,77,142; Moore, 1989; Abercrombie, 1978.
2. It is interesting to note how the new Indian literati in the 1870s rejected the colonialist interpretation of Indian history and attempted to write their version of nationalist history of India.
3. For the meaning and interpretation of this Hindu feast See: Anand, 1991.
4. Hobsbawm's view that these three symbols themselves reflect the background, thought and culture of a nation is open to question, whether in themselves they reflect it or they are given a surplus meaning.

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The Deconstruction of America

Joseph E. Fallon
Rye, New York

The author traces the demographic history of the United States with particular reference to immigration and the impact of changes in the ethnic pattern of post-World War II immigrants on the cultural, fiscal, and economic condition of the United States. Consideration is also given to the constitutional implications of the privileges extended to U.S. territories in the Pacific.

Key Words: Demography, Migration, U.S. Immigration Policy, Pacific territories, Bi-lingualism, Multi-Culturalism and Crime

During the past thirty-two years, Congress has enacted laws on immigration, citizenship, and territorial powers which are deconstructing the United States as both a "European" nation and a federal polity.

For nearly two hundred after its independence from Great Britain in 1783, the United States was demographically a "European" nation with never less than 81 percent of the population being of European, and overwhelmingly Northern European, ancestry. As recently as 1950, European-Americans still constituted 90 percent of the total population of the United States.

The Changed Pattern of Immigration

But all this has changed under the continuing impact of the 1965 Immigration and Naturalization Act Amendments. The Congressional sponsors of this legislation publicly and repeatedly told the citizens of the United States it: (1) would not increase the annual levels of immigration, (2) would not lower the standards for admission, (3) would not redirect immigration away from Europe, and (4) would not alter the demographic make-up of the United States.

For example, Senator Robert Kennedy declared "the new immigration act would not have any significant effect on the ethnic composition of the U.S."[1] His brother, Senator Edward Kennedy, floor manager of the bill in the Senate, asserted that "This bill is not concerned with increasing immigration to this country, nor will it

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lower any of the high standards we apply in selection of immigrants."[2] And Representative Emanuel Celler, the dean of the House in 1965 and a Congressional opponent of U. S. immigration policy since 1924, insisted "the effect of the bill would be 'quite insignificant' on U. S. population" and "that the bill would not let in 'great numbers of immigrants from anywhere', including Africa and Asia".[3]

What the Senators and the Congressman emphatically proclaimed as truth proved to be totally untrue. Between 1968, the year when the 1965 immigration law fully took effect, and 1996, the annual level of legal immigration skyrocketed from approximately 300,000 to nearly one million.

During the 147 years between 1820 and 1967, of the 44 million immigrants legally admitted to the United States 80 percent came from Europe while another 9 percent came from Canada.[4] As a result of the 1965 immigration act, of the more than 19 million immigrants legally admitted to the United States in the 28 years between 1968 and 1996 approximately 83 percent came from somewhere other than Europe or Canada. Asia and the Pacific islands accounted for more than six million or 34 percent of the total; Latin America and the Caribbean islands accounted for almost nine million or 46 percent, and Africa accounted for nearly half a million or about 3 percent.[5]

During the last 28 years, immigration from Europe totaled less than 3 million or barely 15 percent of all legal immigration while immigration from Canada amounted to less than half a million or less than 3 percent of the total. This decline from the 1820-1967 levels is more pronounced than these statistics reveal. While immigration from Asia means ethnic Asian immigrants, and immigration from Latin America means, with the exception of Brazil and Haiti, "ethnic" Hispanic immigrants, immigration from Europe and Canada does not mean ethnic European immigrants. Africans, Asians, and Latin Americans are able to immigrate to various European countries, as well as to Canada, then remigrate to the United States under the quotas for those countries.

This decline in European immigration is even more dramatic when you include illegal immigration. The Immigration and Naturalization Service conservatively estimates that five million illegal aliens have already permanently settled in the United States and that this population is increasing by an additional 300,000 each year. Illegal

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immigration, like legal immigration, is monopolized by the Third World. As of 1996, of the 2,684,892 illegal aliens granted amnesty by the 1986 Immigration Reform and Control Act (IRCA) more than 98 percent, 2,642,921, came from the Third World -- i.e., Africa, Asia and the Pacific islands, and Latin America and the Caribbean islands.[6]

Of the 41,775 illegal aliens amnestied between 1989 and 1996 and identified as having come from Europe, Canada, Australia, and New Zealand, it is highly probable that, just as in the case of legal immigration, many may have been Third World aliens who had previously immigrated to those countries before then illegally entering the United States.

The single largest source of both legal and illegal immigration to the United States is Mexico. Between 1989 and 1996, Mexico's share of legal immigration was 37 percent, 44 percent, 52 percent, 22 percent, 14 percent, 14 percent, 13 percent, and 18 percent, respectively. During those seven years, Mexico's share of all illegal aliens amnestied by the Immigration Reform and Control Act (IRCA) was 71 percent, 71 percent, 80 percent, 75 percent, 72 percent, 73 percent, 70 percent, and 78 percent, respectively.[7] According to the Immigration and Naturalization Service, Mexicans represent 54 percent of the five million illegal aliens permanently residing in the United States.

A September 15, 1996 poll conducted by the Los Angeles Times revealed that half of all Mexicans have a family member living in the United States and 20 percent of Mexicans (18 million people) said they too were likely to migrate to the United States looking for better paying jobs within the next twelve months.

India, however, is a potential rival to Mexico's position as the single largest source of immigrants to the United States. The June 1995 "International Gallup Poll Report: People's Satisfaction with Their Lives and Government" discovered that 7 percent of the population of India -- 65 million people -- would like to immigrate to the United States.

According to the Census Bureau, the foreign-born population in the United States as of 1996 numbered approximately 25 million. Of this number -- which is larger than the population of 49 of the 50 States - over 61 percent had arrived in the last 15 years, and more than 25 percent had arrived since 1990. In addition, 20 percent were illegal aliens and over 66 percent had not become U. S. citizens.[9]

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The magnet attracting such immigration, both legal and illegal, is the welfare state and its extensive financial benefits which Congress had, up to the time of the enactment of the Welfare Reform Act of 1996, made available to Third World immigrants. Publications overseas -- such as What You Need to Know About Life in America sold in Taiwan and Hong Kong -- and in the United States -- such as the Chinese language World Journal -- provide Third World immigrants with information on how they can obtain these benefits.

In lobbying against proposed legislative reforms to reduce welfare eligibility for immigrants, the Organization of Chinese Americans admitted that if welfare benefits were not available many Chinese-Americans would not sponsor their overseas family members for admittance to the United States.[10]

Tax Exempt Subsidies for Immigrant Organizations

Judging by their actions, the conviction that Third World immigrants come to the United States because of its generous welfare system is apparently shared by a number of other advocates of Third World immigration. Billionaire George Soros, an opponent of immigration reform, has pledged $50 million to assist immigrants who lose their benefits under the Welfare Reform Act of 1996.

In January 1997, the first installment of nearly $12 million was distributed among twenty-two pro-Third World immigration groups, including the Catholic Legal Immigration Network ($3 million), the Fund for New Citizens ($2.5 million), the National Council of La Raza ($1 million), and the National Immigration Law Center ($1 million). This money will not be used for job training or job placement. Instead, it will be employed to expedite the naturalization of immigrants so that as U S. citizens they can continue to receive their welfare benefits.[11]

A further attraction for Third World immigrants is the relative ease with which these benefits can be fraudulently obtained. "INS does not act against aliens who pay bribes or purchase fraudulent documents. INS made little effort to locate or deport aliens who were the customers and beneficiaries of document fraud schemes. INS did not take action to preclude such aliens from receiving benefits for which their fraud had made them eligible; did not act to delete, correct, or flag fraudulent entries in its automated data bases and information systems; and had no provision for placing any code, flag

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or alert in INS records to warn INS officers should they encounter these same aliens in the future."[12]

According to the Congressional Research Service of the Library of Congress prior the 1996 Welfare Reform Act, immigrants were participating in more than fifteen major federal and State programs. These included Aid to Families with Dependent Children (AFDC); Supplemental Security Income (SSI); General Assistance; Housing and Urban Development; Community Development Grants, Foster care, adoption assistance, and child welfare; Medicaid, emergency services and services for pregnant women; State and local medical care; School lunch and breakfast programs; Headstart, Job Training Partnership Act; Title IV for Higher Education; Block grants for social services; Adult Education Grants; Women, Infants, and Children (WIC), and Home Energy Assistance.

In addition, immigrants also participate in the Earned-Income Tax Credit (EITC) Under this program, if one's income is below a prescribed level the federal government will issue that individual a refund check even if no income tax is due. In 1996, a recipient could receive a maximum of $3,556. Although eligibility is restricted to U.S. citizens and legal resident aliens, the Internal Revenue Service, nevertheless, does not hamper illegal aliens from receiving these refunds. If an applicant supplies a Social Security number that cannot be processed because it is false -- and a preliminary 1992 report by the Immigration and Naturalization Service found 83 percent of illegal aliens amnestied by the Immigration and Reform Act (IRCA) had false Social Security numbers[13] -- it is not uncommon for the Internal Revenue Service to issue that person a temporary number so a refund check can still be dispatched.[14]

The Immigrant Burden on Welfare

As the source of U. S. immigration was switched by the 1965 immigration act away from Europe and to the Third World, immigrant welfare dependency rates have risen noticeably. In 1970, immigrant participation in welfare was comparable to native-born Americans -- 6 percent. By 1990, however, immigrant welfare participation rates were, on average, higher than native-born Americans in general (9 percent versus 7 percent) and higher still than "white, non-Hispanic" native-born Americans, i.e., European-Americans, in particular, whose welfare participation rate was

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estimated at around 5 percent.[15]

For specific immigrant groups, the welfare dependency rate is higher, sometimes dramatically higher: Chinese and Filipinos -- 10 percent, Mexicans -- 11 percent, Ecuadorians -- 12 percent, pre-Marielito Cubans -- 15 percent, Vietnamese -- 26 percent, Dominicans -- 28 percent, and Cambodians and Laotians -- nearly 50 percent.[16]

During this same period, immigrants went from being the recipients of 7 percent of all welfare cash benefits in 1970 to 13 percent in 1990.[17] But three-quarters of the total cost of welfare is "non-cash transfers". These "non-cash transfers" include such programs as the previously listed Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Housing Assistance, Medicaid, Student Lunch Programs, Women, Infants, and Children (WIC), as well as Food Stamps.

When those programs were examined, Dr. George Borjas of Harvard University found that although immigrants are 9 percent of the U.S. population they accounted for 12 percent of the costs of Food Stamps, 14 percent of the costs of Medicaid, 17 percent of the costs of Aid to Families with Dependent Children (AFDC), 18 percent of the costs of Supplemental Security Income (SSI), and 19 percent of the costs of school breakfasts and lunches.[18]

Factoring in "non-cash transfers", Dr. Borjas discovered that the overall welfare dependency rate for immigrants is really 21 percent compared to 14 percent for native-born Americans and 11 percent for "white, non-Hispanic" native-born Americans -- i.e., European-Americans.[19] Immigrants' use of welfare, therefore, is 50 percent higher than native-born Americans and approximately 90 percent higher than "white, non-Hispanic" native-born Americans -- i.e., European-Americans.

This growth in welfare dependency by immigrants is expected to continue since current immigrants have less schooling, less proficiency in the English language, less skills, and are earning less than either earlier immigrants or native-born Americans.

Nearly 40 percent of all adults admitted to the United States each year are high school dropouts.[20] By 1990, one of every four immigrants from Mexico who were of high school age were not attending school, and an estimated total of 3.06 million immigrant high school dropouts were residing in the United States accounting

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for one-fifth of all high school dropouts in the national labor market. This represented a doubling of the immigrant share of high school dropouts since just 1980.[21] Furthermore, between 1990 and 1995, an additional 1.05 million adult high school dropouts were legally admitted to the United States.[22]

Among illegal aliens 24 years old or older amnestied between 1989 and 1992 by the Immigration and Reform Control Act (IRCA), 28 percent were high school dropouts while another 55 percent had never attended high school.[23]

In addition, current immigrants are less proficient in the English language. The 1990 Census found that among the foreign born those who entered the United States since 1980 approximately 42 percent were "linguistically isolated" -- i.e., living in "households in which no one 14 years old or over speaks only English and no one who speaks a language other than English speaks English 'very well'" -- compared to only 18 percent among those who entered before 1980.[24]

Of the foreign born who arrived since 1980, 60 percent do not speak English "very well" compared to 37 percent of those who arrived before 1980.[25] Among the foreign born, only 26 percent of Europeans do not speak English "very well" compared to 71 percent of Mexicans, 63 percent of Central Americans, 48 percent of South Americans, and 43 percent of Caribbean islanders.[26]

By 1992, only 36 percent of all the illegal aliens amnestied by the Immigration and Reform Control Act (IRCA) since 1989 claimed they spoke English well. The majority of those amnestied were Mexican and only 27 percent of them reported that they could speak English well.[27]

According to Dr. Borjas, "Because more recent immigrant waves start off poorly, it is unlikely that the earnings of the 'new immigrants' will ever catch up with those of natives. In fact, the wage differential between immigrants and natives may exceed 20 percent even after two or three decades after immigration."[28]

In his 1990 book, *Friends or Strangers*, Dr. Borjas wrote that "The skill level of successive immigrants waves admitted to the U.S. has declined precipitously in the past two or three decades."[29] Six years later in his article. Immigration and the Welfare State: Immigrant Participation in Means-Tested Entitlement Programs, Dr. Borjas noted that "immigrants are more likely to be exposed to the welfare system and are more likely to become 'permanent' recipients".[30]

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By 1990, immigrants were earning, on average, 16 percent less than native-born Americans. But those immigrants who arrived after 1985 were actually earning 32 percent less than native-born Americans.[31] By 1995, the poverty rate for the foreign-born was 70 percent higher than that for native-born Americans.[32]

Dr. Borjas has calculated that the influx of such immigrants has been responsible for a third of the decline in the wages of native-born unskilled workers nationwide during the 1980s, an annual displacement of 2.3 million mostly unskilled and low skilled workers, and an annual cost of $133 billion in depressed wages.

The impact of current immigration has been felt most acutely in California. Within twenty years, the distribution of skills in the State deteriorated to a phenomenal degree. In 1970, California possessed workers that were 50 percent more likely to be skilled than those in the United States as a whole. By 1990, however, California workers were now 50 percent more likely to be less skilled than those in the rest of the country. And immigrants accounted for 85 percent of all male workers with fewer than nine years of education.[33]

In California, immigrant households now receive 40 percent of all cash and noncash welfare benefits. This has lead Dr. Borjas to assert that "It is not too much of an exaggeration to say that the welfare problem in California is on the verge of becoming an immigrant problem."[34]

In addition, "the recent elderly immigrant population (those residing in the U.S. for less than 20 years) more than tripled between 1970 and 1994."[35] A study by Dr. Donald L. Huddle of Rice University and David Simcox, Senior Fellow at the Center for Immigration Studies, found that immigrants were receiving more in social security benefits than they contributed to the program, thereby resulting in a $2.7 billion deficit in 1992. They estimate that over the next decade the social security deficit caused by immigration will total $30 billion.[36]

Furthermore, in just the twelve years from 1982 to 1994, the number of elderly immigrants who received Supplementary Security Income (SSI) increased from 127,900 to 738,000 or by approximately 580 percent.[37] If this trend continues, it is projected that by the year 2004 this number will increase to more than 3 million, the SSI and Medicaid benefits received by these immigrants will amount to $328 billion, and the cost of providing these benefits will exceed $67 billion

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a year.[38] In 1994, immigrants received nearly half, 49 percent, of all Supplementary Security Income (SSI) payments and their average monthly benefits were double the amount paid to U.S. citizens.[39] Remarkably, 25 percent of those immigrants receiving Supplementary Security Income (SSI) payments belong to families who had yearly incomes in excess of $64,000.[40]

According to the findings of Dr. Huddle, the net national cost of immigration to the U.S. taxpayers was $65 billion a year in 1996, or the equivalent of costing every U. S. family of four $981. This is significantly higher than the $46 billion it cost in 1992 and is an increase of 40 percent in just four years. This cost is projected to grow to $108 billion annually within the decade.[41]

A contributing factor to this rising cost of immigration has been the impact of the amnesty awarded to approximately 3 million illegal aliens by the Immigration and Control Act (IRCA) of 1986. Between 1987 and 1996, the total net fiscal deficit caused by these amnesties was nearly $79 billion. This was the equivalent of giving each one of the nearly 3 million illegal aliens amnestied a check for over $25,000. The direct costs incurred by this amnesty program were $24 billion, while indirect costs -- i.e., job displacement, public education, and public assistance programs to citizen children 18 and under -- amounted to another $55 billion and are still growing.[42]

Amnesty and the Prison Population

Starting in 1995, large numbers of illegal aliens amnestied by the Immigration Reform and Control Act (IRCA) began to naturalize, presumably so that their families can gain immediate entry into the United States as relatives of U.S. citizens. As a result, the U.S. Commission on Immigration Reform estimated that nearly a million and a half spouses, children, and parents of amnestied illegal aliens will now be immediately admitted to this country. Providing public education for the children and medical and income support for an estimated 900,000 aging parents of these new citizens will significantly increase the overall costs of immigration.[43]

Along with less schooling, less proficiency in the English language, less skills, higher poverty rate, higher welfare dependency rate, immigrants disproportionately commit more crime. The non-citizen (i.e., immigrants not naturalized) inmate population in the federal prison system more than quadrupled between 1984 and 1994,

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rising from 4,088 to 18,292.[44] While the overall federal prison population grew by less than 2 percent a year in that decade, the non-citizen federal prison population grew at an annual rate of 10 percent.[45] Non-citizens represent approximately one-quarter of the total federal prison population.[46] Sixty-five percent of these non-citizen prisoners came from just three countries: Mexico (48.6 percent), Colombia (10.2 percent) and the Dominican Republic (5.7 percent).[47] However, there are no statistics available on how many inmates in the federal prison population are immigrants who were naturalized U. S. citizens at the time of their arrest.

The Demographic Impact on the U.S.

Despite Senator Robert Kennedy's insistence that the 1965 immigration law "can have no significant effect on the ethnic balance of the United States", its demographic result has been to destroy the traditional character of the American nation. By 1990, under the impact of the 1965 immigration law, European-Americans had been dramatically reduced from nearly 89 percent of the total population to barely 75 percent within just twenty-five years.[48]

The influence of Third World immigration on this demographic deconstruction can be seen not only in the actual numbers involved, but in the corresponding fertility rates. As a result of the high rate of Hispanic immigration, by 1993, the total fertility rate of Hispanics, the average number of births a woman will have in her lifetime, is 3.0 children per woman (the highest in the country), compared to only 1.8 for "white, non-Hispanics", i.e., European-Americans.[49] In 1994, the total fertility rate of all immigrant women, the vast majority of whom are from the Third World, was, on average, 50 percent higher than that of native-born American women.[50]

According to the Census Bureau, immigrants represented just 9 percent of the U. S. population in 1995. However, the Carrying Capacity Network, a non-profit organization dealing with population and environmental issues, estimated immigrants accounted for 18 percent of all births (an increase of 164 percent since 1983), 32 percent of the net natural increase (births minus deaths), and 62 percent of the net growth in the U. S. population.[51]

According to the calculations of Dr. Leon Bouvier, former vice-president of the Population Reference Bureau, and adjunct professor at Tulane University School of Public Health, post-1970

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immigrants and their descendants will be responsible for two-thirds of U. S. population growth during the 1990s and over 90 percent of U.S. population growth between 1993 and the year 2050.[52]

As of March 1, 1950, the U.S. population was less than 152 million. By January 1, 1997, the U.S. population had increased to more than 266 million. The Census Bureau projects the U.S. population will be nearly 400 million in the year 2050.[53] The latter is an increase of almost 134 million people within just 53 years. Based upon the calculations of Dr. Bouvier, more than a third of the U.S. population in 2050, 139 million people, will be post-1970 immigrants and their descendants.[54]

Projections by the Census Bureau estimate that sometime after the year 2050 European-Americans will have been reduced to less than 50 percent of the total population.[55] Before then, according to Census projections, European-Americans will already have been reduced to a demographic minority in California by the year 2000, in Texas by 2015, and in Florida and New York sometime after 2015.

They will only be a demographic minority, however, not a political minority. European-Americans will not possess any "constitutionally" protected minority rights. For example, there will be no affirmative action programs enacted either in the public or private sectors for a European-American minority. No electoral districts will be redrawn by legislators or courts to insure "fair" representation for a European-American minority in either the U.S. House of Representatives or local State houses. No laws will be struck down by the courts for having a disparate impact on a European-American minority.

Around 2050, the American nation which was founded by George Washington and John Adams, Alexander Hamilton and Thomas Jefferson, Benjamin Franklin and Patrick Henry, and whose cultural identity could be traced back to the first permanent English settlement at Jamestown, Virginia, in 1607, will have been destroyed "in whole".

In the meantime, the impact of Third World immigration, through the concept of "multiculturalism", has already resulted in a concerted and sustained attack on the historic identity of the United States as a "European" country. This attack could only be initiated after massive Third World immigration had first achieved a significant demographic reduction in the size of the European-American

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majority population in various localities throughout the country.

Claiming that demographically the United States is now a multiracial country, Third World militants and their supporters demand it must now be officially multicultural as well. And the U.S. government agrees. The opening, and most important, attack upon the Western cultural identity and the political unity of the United States was the federal assault upon the English language.

Language Complications

First, Congress passed the Bilingual Education Act in 1968 authorizing the education of non-English-speaking children in their native languages. By 1993, the annual cost of bilingual education was $12 billion.[56]

Despite federal law requiring a naturalized U.S. citizen to be able to "demonstrate an understanding of the English language, including an ability to read, write and speak words in ordinary usage in the English language", Congress amended the Voting Rights Act in 1975 to mandate that voting ballots be provided in languages other than English whenever 10,000 people of voting age or five percent of the total voting age population in a district, whichever is lower, speaks a language other than English -- a figure obtained by including non-citizens who are legally prohibited from voting -- and have an illiteracy rate that exceeds the national average. According to English First, a non-profit organization addressing the problems of official bilingualism and multilingualism, up to 320 languages and an additional 100 "dialects" are eligible for voting ballots. In 1992, Congress extended this law to the year 2007.

With passage of the Immigration Act of 1990, Congress exempted all individuals from the requirement of demonstrating fluency in the English language in order to obtain U.S. citizenship if they are 50 years old or older and have legally lived in the United States for more than 20 years, or if they are 55 years old or older and have legally lived in the country for more than 15 years.

Exploiting this attack on the English language requirement for U.S. citizenship, U. S. District Judge Alfredo Marquez had part of a naturalization ceremony over which he presided conducted in Spanish on July 2, 1993, in Tucson, Arizona.

As a result of official language policies, one-third of immigrants who became U.S. citizens during the decade of the 1980s were

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classified by the Census Bureau as 'linguistically isolated" (defined, as mentioned, as U.S. citizens who live in "households in which no one 14 years old or over speaks only English and no one who speaks a language other than English speaks English 'very well'"). In addition, over 2 percent of the "native born" now do not speak English "very well".[57]

This assault on the English language has been extended to the Department of Motor Vehicles. By 1995, only 12 states still offered the driver's license examination exclusively in English. The remaining states were offering this test in any one of up to three dozen languages.[58]

By 1981, the U.S. government expanded its attack on the English language into the private sector. Under a ruling issued that year by the Equal Employment Opportunity Commission (EEOC), private employers are now required under penalty of law to permit employees to speak languages other than English on the job.

The U.S. Supreme Court has initiated its own assaults on the status of English as well. In 1974, in *Lau v. Nichols*, the Court permitted the public education of non-English speaking children in their native languages. The scope of this attack was greatly enlarged in 1982 when the Court further ruled in *Plyler v. Doe* that illegal aliens must receive free public education. And this can be provided in their native languages.

The effect of these acts by Congress and the U.S. Supreme Court has been to encourage pro-Third World militants, Hispanics in particular, to attack both the English language and the constitutional rights of European-Americans.

The opening salvo in this new offensive was fired in 1982 by then Mayor of Miami, Florida, Maurice Ferre, who declared that soon "there will not be a word of English spoken [in Miami] ... one day residents will learn Spanish or leave."[59] "Permanently speaking a different language ... Let's get the definition. Not transitional Spanish. We're talking about Spanish as a main form of communication. As an official language. Not on the way to English."[60]

Mayor Ferre was able to utter such statements because the post-1965 immigration policy of the U.S. government -- in particular the 1965 to 1973 U.S. air lift of nearly 300,000 Cubans to Miami later supplemented by the 1980 Mariella boatlift which brought an additional 125,000 Cubans to the city -- had so completely altered the

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historic demographics of Miami.

In 1960, European-Americans were approximately 77 percent of the population of Miami. By 1980, however, within fifteen years of passage of the 1965 Immigration Act, the European-American population had been reduced to a demographic minority while a virtually non-existent Hispanic population, chiefly Cuban, had become the demographic majority constituting 56 percent of Miami's population. By 1990, Hispanics had risen to 62 percent of the city's population.[61]

The political repercussions of this demographic deconstruction of Miami has had a direct effect on both Dade County in which the city is located and the State of Florida. In May 1992, Hispanic militants successfully lobbied the Dade County Commission to repeal a November 1980 voter-approved referendum establishing English as the sole official language of the county government.

At the state level, an English Language Amendment to the Florida Constitution, designating English as the sole official language of state government, was approved by 84 percent of the voters in November 1988. But the referendum was not self-executing. Separate enabling legislation from the State legislature was required before the amendment could take effect. In May 1989, Hispanic militants including Republican State Senators Ileana Ros-Lehtinen, (now a U.S. Congresswoman) Javier Souto, and Roberto Casas successfully lobbied the three Republicans on the six member Florida State Government Operations Committee to block the required legislation from making it to the full floor for a vote. By killing this bill, the English Language Amendment was effectively nullified as was the democratic process in the State of Florida.

Justifying the demographic deconstruction of the city of Miami, Third World immigrants and their supporters have repeatedly heralded the post-1965 Miami as an economic success story of non-European immigration. Miami, it is claimed, has been transformed and enriched by Third World, specifically Cuban, immigration into a thriving, world famous, metropolis -- "the capital of Latin America".

Financial Woes

In fact, the city of Miami is bankrupt. Facing financial collapse, its government is shutting down or selling public parks, closing police

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stations, and considering new forms of taxes such as charging a fire-fighting fee. The city government is expected to eventually run out of money. City bonds have already been downgraded by Wall Street to the level of junk bonds. And former city officials are facing charges of fraud and corruption. It is a city whose residents are, on average, the fourth poorest in the nation, with 32 percent living below the poverty line. During the last twenty years, the quality of its urban life has deteriorated precipitously. Welfare dependency rates have increased 50 percent, while serious crime per capita has more than doubled.[62]

Nearly twenty years ago, the anti-English language Mayor, Maurice Ferre, was candid about the reason for the city's economic "success". "Miami is the only place in the United States that's going to escape major recessions, and the reason -- you really have to be honest about it -- goes back to two things: the drug cash flow that comes in and impacts the whole community. And number two, the increased centralization of trade, commerce, and banking in Miami toward the Caribbean and Central and South America. . . Ten years ago, Miami was not a trade center. Why was it not a trade center ten years ago and why is it a trade center today? The availability of a tremendous amount of money -- most of which comes from drugs".[63]

The attack on European-Americans is not limited to Miami. Out West, especially in California, such assaults by Hispanic militants against both the English language and European-Americans should be seen within the larger context of the Aztlan movement which seeks to create an independent Hispanic country comprising the States of Arizona, California, Colorado, Nevada, New Mexico, Texas, and Utah.

Euro-Americans under Attack

A precursor of this movement can be identified in 1915 Texas and the "Plan de San Diego". The objectives of the plan were a general uprising by Mexican-Americans on February 20, 1915 to seize control of the southwest of the United States, proclaim that territory an independent Hispanic country, which might join Mexico at a later date, murder every European-American male over age 16, and expel all surviving European-Americans from the "liberated" territory.64

Unable to achieve these goals through domestic insurrection, Mexican-Americans, aided by Mexican nationals, turned to guerrilla

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warfare. From bases in northern Mexico, they launched 27 raids, killed 33 Americans, wounded another 24, destroyed thousands of dollars worth of property, and "ethnically cleansed" thousands of American families from south Texas.65 Despite this violence, they still failed to fulfill the "Plan de San Diego". This was due to the vigorous response of the Texas rangers and the U. S. Army.

Aztlan, as the collective name for the seven States of the southwest, gained widespread recognition in 1969 at the Chicano National Liberation Youth Conference held in Denver, Colorado. "The Spiritual Plan of Aztlan" adopted by the conference proclaimed and promoted the idea that the southwest of the United States was "the northern land of Aztlan" -- a territory brutally invaded by foreign Europeans that rightfully belongs to the Chicano inhabitants.

The current attitude of militant Hispanics toward the United States, the English language, European-Americans, and seizing control of the U.S. Southwest -- or Aztlan -- was revealed at a strategy session held in January 1995 at the University of California at Riverside under the title "Latino Leadership Summit Response to Prop 187".

Ostensibly a meeting of more than 400 prominent Hispanics, including elected officials, to discuss non-compliance with California Proposition 187, a voter-approved referendum denying illegal aliens free welfare benefits, the conference, in fact, dealt with Hispanic irredentism. Judging by the flyers distributed and the speeches made, the underlying theme of the conference could properly be titled "By The Vote If Possible, By Violence If Necessary!"

The keynote speaker was Art Torres, the Chairman of the California Democratic Party, who shouted to the audience "Remember 187 is the last gasp of White America in California!" and "Que Viva La Causa!" (Long Live our Cause!). Among the participants was Xavier Hermosillo, a Los Angeles radio talk show host, who had proclaimed on CBS 48 Hours in 1993 that Mexican-Americans were taking political control of the "former Mexican colony, California ... house by house, block by block".

Antonio Villaraigosa, majority leader of the California State Assembly, was also a speaker at the "Latino Leadership Summit Response to Prop 187". Among the many declarations uttered at the meeting which neither he nor Torres repudiated were "English should be a foreign language"; "We are hostages in our own land, prisoners

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of war"; "We live under occupying alien force."; "We live in the annexed territories of AZTLAN"; and "We're in a state of war ... a vicious threat to our existence".

Although both Torres and Villaraigosa are public officials, neither man condemned the repeated calls for the establishment of an independent country of Aztlan or the references to this country as "AmeriKKKa" and the "United Snakes of America". In fact, Villaraigosa praised one of the participants, Juan Angel Gutierrez, Director of Mexican-American Studies Center, University of Texas at Arlington, who has professed since 1970 that "Our devil has pale skin and blue eyes."

But the success of the Aztlan movement is dependent upon the continuation of the post-1965 U.S. immigration policy which has been responsible for the dramatic increase in the size of the Hispanic population in California. In 1970, Hispanics were only 12 percent of the state population. They had increased to 19 percent in 1980; 26 percent in 1990; an estimated 28 percent in 1994; and are projected to be 32 percent in the year 2000. Between 1970 and 1994, the Hispanic population in California had grown from 2,369,000 to 8,939,000 or more than tripling its size in twenty-four years.[66]

Such political activities by Hispanic militants in Miami and Riverside, California, however, are also part of the general attack by pro-Third World militants on the European cultural identity of the United States. As a Hispanic professor, Robert Cordova, wrote in the *Houston Chronicle* in 1985: "To prepare American youth for the America and world of the not-too-distant future, the present monolingual, mono-cultural Anglo-centric public education system must be replaced by a multilingual, multicultural, pluralistic one ... American society and ideas of old no longer exist."

Two years later, the justification for this assault was continued by Ricardo Chavira, a Hispanic reporter for *Time* magazine, who wrote in *The Monitor* of McAllen, Texas: "Imagine the ludicrousness of an elementary school teacher telling a room full of Chicanos that George Washington and company were our Founding Fathers. Obviously, those guys in matching white wigs were no fathers of mine."[68]

The culture war also affects European-American monuments. One of the first casualties was the Custer National Battlefield Monument in Montana. Established as a national cemetery in 1876, as a result of lobbying, on December 10, 1991, Congress enacted

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Public Law 102-201. This legislation removed the name of General George Armstrong Custer, one of the most decorated Union officers of the Civil War, from the national monument created to honor his memory and the memory of over 200 of his men massacred by Iandians on June 25, 1876, and the site was renamed to commemorate not just the U.S. troopers but the Indians who scalped them. In Oregon in 1994, a state agency rejected a monument called "The Promised Land" which it had commissioned to commemorate the 150th Anniversary of the Oregon Trail, because that statute depicted a Christian, European-American pioneer family. This despite the fact that historians estimate well over 90 percent of the pioneers who traveled the Oregon Trail were Christian, European-Americans.

In San Antonio, Texas, Mexican militants are demanding that the monument to the defenders of the Alamo -- Davy Crockett, Jim Bowie, William Barret Travis, James Butler Bonham, etc. -- be torn down or removed.

In San Jose, California, in 1994, Mexican militants succeeded in having that city spend $500,000 of taxpayers' money to commission a statute of the Aztec god, Quetzalcoatal, also known as "The Plumed Serpent", and then erect it in a public park replacing the existing monument of the Liberty Bell.

Also in San Jose, California, pro-Third World activists are further demanding that the statue of Christopher Columbus be removed from the city hall.

The state of South Dakota and the city of Berkeley, California already abolished "Christopher Columbus Day" in 1990 and 1991, respectively. It has now been officially replaced in South Dakota by "Native American Day" and in Berkeley, California, by "Indigenous Peoples Day".

In Hialeah, Florida, practitioners of Santeria, a Caribbean mixture of Catholicism and African animism, claimed their animal sacrifices were a religious act and that city laws prohibiting such practices were unconstitutional. In 1993, the U. S. Supreme Court agreed, ruling in *The Church of Lukumi v. the City of Hialeah* that the First Amendment of the U.S. Constitution guaranteeing freedom of religion does, in fact, permit and protect the Santeria practice of torturing, mutilating, and killing animals.

In Lady Lake, Florida, a retirement community, the management prohibited residents from displaying the U. S. flag from the front of

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their homes in 1996. As reported by *The Orlando Sentinel* on March 16, 1996, the director of operations for Lady Lake allegedly justified the ban on the ground that "in a multinational community, U.S. flags might offend some residents."

In New York City latter in 1996, Islamic militants claiming that the traditional Christmas decorations in Grand Central Terminal constituted religious discrimination against Muslims succeeded in having most of the decorations removed and an Islamic flag with star and crescent flown in the world-famous railroad station throughout the Christmas season. This, despite the fact that, outside of the Friday Sabbath, there are no special Muslim religious observances in December.

This ongoing attempt to eradicate the "European" cultural identity of the United States extends well beyond attacks on the English language, the U.S. flag, and American monuments and holidays, to the systematic denigration and elimination of the classics of Western culture from the curriculum of American colleges and universities.

The assault began in January 1988 when pro-Third World activists at Stanford University demonstrated against having Western classics in the school curriculum. With chants of "Hey, hey, ho, ho, Western culture's got to go", they were successful in having the university replace its Western culture course with a multicultural program entitled "Cultures, Ideas, and Values".[69]

This victory at Stanford was followed by successful attacks on Western culture at other colleges and universities. Berkeley, Dartmouth, Mount Holyoke College, and the University of Wisconsin now require students to study Third World cultures, but not Western culture.[70] There is, in fact, little toleration of Western culture. According to Gayatri Spivak, Andrew Mellon Professor of English and cultural studies at the University of Pittsburgh: "You cannot ask a certain people to 'tolerate' a culture that has historically ignored them."[71]

This idea was expanded upon by Houston Baker of the University of Pennsylvania who asserted that the problem at American universities was an undue emphasis on reading and writing. Such Western skills were to Mr. Baker "merely technologies of control" and "martial law made academic".[72]

Pro-Third World activists are convinced that their attack on

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Western culture in the universities, and by implication throughout the United States, will succeed because, as William King, then President of the Black Student Union at Stanford University, declared: "We have demographics on our side."[73]

The immediate effect of all this on the character of American education has been pronounced. "Research indicates that it is possible to graduate from 37 percent of American colleges without taking any courses in history, from 45 percent without taking a course in American or English literature, from 62 percent without studying any philosophy, and from 77 percent without studying a foreign language."[74]

More remarkable is what students no longer learn in American colleges. "A 1989 survey commissioned by the National Endowment for the Humanities showed that 25 percent of college seniors have no idea when Columbus discovered America; the same percentage confuse Churchill's words with Stalin's, and Karl Marx's ideas with those in the U.S. Constitution. A majority of students were ignorant of the Magna Carta, the Missouri Compromise, and Reconstruction. Most could not link Dante, Shakespeare, and Milton with their major works."[75]

Deconstructing American Citizenship

In addition to promoting the demographic and cultural deconstruction of the American nation -- the former through Third World immigration and the latter through attacks by pro-Third World militants on the "European" cultural identity of the United States -- Congress has simultaneously pursued the political deconstruction of the American political system by undermining the sanctity of U. S. citizenship and by allocating unconstitutional powers to U.S. territories.

The process for obtaining U.S. citizenship has been dumbed down and trivialized. U.S. Government advertisements read "Easy ... Easier than ever ... You will not be asked questions about History or Government at your Immigration and Naturalization Service interview. . . And I.N. S. will not have a record of your score if you do not pass".[76]

The citizenship test, itself, is a written examination in English consisting of multiple choice questions and two dictated sentences. Neither correct spelling nor proper basic grammar is required to pass.

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Among the questions on the test are "Who was the first President of the U.S.?", "How many states in the U.S.?", and "Where is the nation's capital?".[77] Should an applicant fail the examination, he can keep on taking it until he finally does pass. The Federal Citizenship Textbook Series reassures such applicants that "Retests are variations of the initial test."[78]

Some of the questions which appear on the test actually demean or distort the very nature of U.S. citizenship. Question 86 asks "Name one benefit of being a citizen of the United States." According to the U.S. government only three acceptable answers exist: "to obtain federal government jobs, to travel with a U. S. passport, and to petition for close relatives to come to the United States to live."[79]

Question 84 asks "Whose rights are guaranteed by the Constitution and the Bill of Rights?" The U.S. government asserts that the "correct" answer is "Everyone's (citizens and non-citizens living in the United States)".[80] This is completely false. It denies the existence of those rights which the U. S. Constitution explicitly and exclusively awards to the citizens of the United States -- Article I, Section 2 (qualification for the U. S. House of Representatives), and Section 3 (qualification for the U.S. Senate); Article II, Section 1 (qualification for U.S. President); Article III, Section 2, Article IV, Section 2, and the Fourteenth, Fifteenth, Nineteenth, Twenty-fourth, and Twenty-sixth Amendments.

The test for U. S. citizenship is even easier than many of the questions suggest. For certain applicants an essential facet of the test has been abolished. As was mentioned previously, if you are 50 years old or older and have lived legally in the United States for more than 20 years, or are 55 years old or older and have lived legally in the country for more than 15 years, you no longer have to demonstrate any level of proficiency in the English language.

While passing an English-language proficiency test is still required for all other applicants seeking U.S. citizenship, it is now being proposed that this test be conducted over the telephone![81] But the extent to which the integrity of the citizenship test has been undermined is more extensive. The U.S. government has effectively removed the citizenship test from the sole jurisdiction of the Immigration and Naturalization Service and now permits ethnic and religious lobbyists to determine the content of the test which they are also authorized to administer. Under the influence of such lobbyists,

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even the word "American" has been removed from the test altogether.[82] Presumably, this is because it is confusing or offensive to those applicants for U. S. citizenship from the Third World.

Among lobbyists authorized to administer the citizenship test are: the Hermanadad Mexicana Nacional, which is being investigated for allegedly engaging in voter fraud to insure the defeat of incumbent Congressman Robert Dornan by challenger Loretta Sanchez; and the United States Catholic Conference which refuses to condemn the public statement made by the Mexican Catholic Conference, that "The march of Latin Americans to the United States shouldn't be understood as a wave of anger or revolutionary passion, but more as peaceful conquest."[83]

The Immigration and Naturalization Service, itself, further undermines the integrity of the citizenship process. Despite the law requiring FBI fingerprint checks of immigrants applying for naturalization in order to screen out criminals who are legally ineligible from U.S. citizenship, the Immigration and Naturalization Service has since 1994 permitted immigrants to submit their fingerprints by mail![84]

No statistics are available on how many criminals have acquired U.S. citizenship through such mail fraud because the Immigration and Naturalization Service maintains it cannot arrest or deport criminals once they have been naturalized. Between August 1995 and September 1996, over one million immigrants became U.S. citizens. Of this number, "nearly 180,000 were not subjected to complete FBI background checks as required by law. An additional 71,500 who had criminal records were naturalized despite their background."[85]

Finally, the trivializing of U.S. citizenship extends to the naturalization ceremony itself. The U.S. government permits this ceremony -- whereby legal aliens become U.S. citizens swearing allegiance to this country -- to be conducted in a language other than English.[86] And there are now calls for the Oath of Allegiance to the United States to be removed from the swearing-in ceremonies.[87]

The privilege of U. S. citizenship includes the right awarded exclusively to citizens to vote. But, as with the sanctity of U. S. citizenship, the sanctity of the franchise has been undermined by the U. S. government. This has been achieved in two ways.

First, the "National Voter Registration Act" of 1993, known as the "Motor-Voter" bill, "requires states to conduct mail-in voter registration, discourages states from verifying eligibility or citizenship,

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and expressly states that mail-in registration forms may not include any requirement for notarization or other formal authentication."[88]

Second, the U.S. government permits cities to enact laws granting non-citizens the right to vote in local elections. To date five cities in Maryland have done this: Takoma Park, Somerset, Martin's Additions, Barnesville, and Chevy Chase.[89]

Unconstitutional Privileges of the former U.S. Territories

In deconstructing the American political system, Congress has not only trivialized the meaning of U.S. citizenship and undermined the election ballot, it has also allocated unconstitutional powers to the local governments of the U. S. territories.

Historically, a U.S. territory was land with a population too small and scattered to govern itself as a state and, therefore, was administered by the federal government. But most importantly, a U.S. territory was considered to be, above all else, a temporary status. Based upon the principles of the Northwest Ordinance of 1787, principles implemented by the federal administrations of George Washington, John Adams, Thomas Jefferson, and James Madison, States were to be carved out of existing territories and admitted to the Union on the basis of equality. This is what occurred, for example, in the Old Northwest Territory, the Old Southwest Territory, the Louisiana Territory, the Oregon Territory, and the Mexican Cession.

Since a territorial status was temporary, territories which did not become states became independent countries -- Cuba in 1903 and the Philippines in 1946 -- or were transferred, in whole or in part, to a foreign power. For example, the northwest portion of the Louisiana Territory (1818),[90] the northeast portion of the state of Maine (1842),[91] the northern half of the Oregon Territory (1846),[92] and a third of the Alaskan panhandle (1903)93 were transferred to the United Kingdom; Okinawa (1972) was transferred to Japan[94]; and the Panama Canal and Canal Zone Territory (1978) was transferred to Panama.[95]

As a result of the Spanish-American War of 1898, the United States had acquired territories, such as Cuba and the Philippines, which were unlikely to become states in the Union because they were geographically remote and/or their cultures differed significantly from that of the United States. To resolve the unique problem of how to

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administer these possessions, the U. S. Supreme Court, in a series of rulings between 1901 and 1922 known as the "Insular Cases", promulgated the "doctrine of incorporation". According to this theory, the U. S. Constitution does not fully apply to an American territory until it has been "incorporated" into the Union. However, when such an "incorporation" occurs has never been precisely defined by the U. S. Supreme Court. While the "doctrine of incorporation" granted Congress virtually unlimited powers to administer such territories, it did not alter the temporary nature of a territorial status, and it did not recognize any permanent political status other than statehood.

All this changed when Congress radically altered the political structure of the United States first with Puerto Rico in 1952, then with the United Nations Strategic Trust Territory of the Pacific Islands in 1986. Claiming the power under the "doctrine of incorporation" and Article IV, Section 3(2) of the U.S. Constitution "to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States", Congress replaced the Constitution's well-defined Union composed exclusively of states -- each state, regardless of territorial size, population size, or date of admission, possessing equal powers -- with a ambiguous political system. The "Union" now consists of unequal powers between the 50 states, on the one hand, and a political hierarchy of eight territories.

The latter consists of, in descending order, three "free associations", the Federated States of Micronesia, the Marshall Islands, and Palau, whose inhabitants are citizens of their respective "republics", not the United States; two "commonwealths", Puerto Rico and the Northem Marianas, whose inhabitants are U.S. citizens but with the latter enjoying local control over immigration and land ownership; two "unincorporated and organized" territories, Guam and the U.S. Virgin Islands, whose inhabitants are U.S. citizens; and one "unincorporated and unorganized" territory, American Samoa, whose inhabitants are legally U.S. nationals, not U.S. citizens, but enjoy the same "rights" over immigration and land as the Northern Marianas islanders -- "rights" legally denied to other U.S. citizens. There are, in turn, additional hierarchies in both "free association" and "commonwealth".

"Free association" is a political relationship recognized by the United Nations as an alternative to independence for a former trust

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territory. It enables the local population to enjoy a maximum degree of self-government -- including representation in international organizations and the right of its representatives to negotiate and sign treaties -- while insuring the former administrating power continues to finance and defend that territory.

Prior to 1941, what today are the Federated States of Micronesia, the Marshall Islands, the Northern Marianas, and Palau belonged to Japan. The U.S. government seized these islands during World War II. However, Washington only assumed legal responsibility for their administration in 1947 under an international trusteeship called the United Nations Strategic Trust Territory of the Pacific Islands.

The trusteeship system created by the United Nations was planned as a transitional administration for a limited number of territories which, it was assumed, would terminate in independence. Under the United Nations Strategic Trust Territory of the Pacific Islands, the U.S. government was to administer the islands that presently constitute the Federated States of Micronesia, the Marshall Islands, the Northern Marianas, and Palau as a single political entity.

Although most islanders favored independence, because of the "Cold War" the U.S. government desired to retain control of strategic portions of this Pacific territory. Therefore, Washington permitted, if it did not actually orchestrate, the fragmentation of the United Nations Strategic Trust Territory of the Pacific Islands into four separate entities, retaining permanent possession of the most strategic island group, the Northern Marianas, under a "commonwealth" covenant and offering the other three, the Federated States of Micronesia, the Marshall Islands, and Palau, compacts of "free association" with the United States.

This "free association" consists of two parts: political and defense/security. The Federated States of Micronesia, the Marshall Islands, and Palau may unilaterally vote to end their political status of "free association" at any time, but independence will not affect, alter or abolish the defense and security provisions which will still remain in full force.

A hierarchy exists as each entity is treated differently by these defense and security provisions. For the Federated States of Micronesia, these provisions last only 15 years.[96] For the Marshall Islands, they last 15 years for the archipelago as a whole, but 30 years for its Kwajalein military facilities.[97] After these provisions expire, the

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Federated States of Micronesia and the Marshall Islands have agreed to permanently deny their lands and facilities to any third power.[98] In the case of Palau, the defense and security provisions last for 50 years, but then remain in force for perpetuity unless terminated or altered by mutual consent.[99]

As long as the Federated States of Micronesia, the Marshall Islands, and Palau are in "free association" with the United States, Washington, in addition to guaranteeing these islands economic assistance and certain technical services for a specified period, provides "at no cost to the respective governments, airline and airport safety services, economic regulation of commercial air service, weather prediction, public health services, legal aid services, assistance from the Farmers Home Administration and assistance in the event of natural disasters."[100] In addition, mail delivery continues to be provided by the United States Postal Service.[101]

"Commonwealth" possesses a hierarchy too, but lacks any precise legal definition. Originally, "commonwealth" applied only to states. Five officially identify themselves as "commonwealths" in their respective constitutions -- Kentucky, Maryland, Massachusetts, Pennsylvania, and Virginia. Their powers are limited by the U.S. Constitution. However, from 1935 to 1946, Congress designated the Philippines, a U.S. possession since 1898, a "commonwealth". Other than its name, the "Commonwealth of the Philippines" bore no political resemblance to the "commonwealths" of Kentucky, Maryland, Massachusetts, Pennsylvania, or Virginia. For the Philippines, "commonwealth" designated not a state in the Union, but a transitional administration leading to independence from that Union. And the powers which it exercised were inferior to those exercised by states because they were limited not by the U. S. Constitution but by the whims of Congress.

Yet, a third type of "commonwealth" was created by Congress for Puerto Rico in 1952 and the Northern Marianas in 1986. In these instances, Congress applied the term "commonwealth" not to designate statehood or transition to independence, but as a verbal camouflage to preserve their territorial links to the United States.

That the term "commonwealth" as applied to a U.S. territory is devoid of any meaning was publicly admitted in 1976 by both the U.S. Supreme Court and Congress. While never addressing the constitutionality of Puerto Rico's "commonwealth" status, in the case of

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Examining Board of Engineers v. Flores de Otero the U.S. Supreme Court acknowledged that that status "occupies a relationship with the United States that has no parallel in our history."[102] In its report "The Covenant to Establish a Commonwealth of the Northern Mariana Islands", the Senate bluntly stated: "the term 'commonwealth' is not a word describing any single kind of political relationship or status ... The choice of the term 'commonwealth' for the Northern Mariana Islands therefore does not denote any specific status, in particular it does not connote identity with the title held by the Commonwealth of Puerto Rico."[103]

Guam and the U.S. Virgin Islands are "unincorporated and organized" territories. They are "unincorporated" because the provisions of the U. S. Constitution do not apply in full to these islands. They are "organized" because Congress established the governments for these territories through legislation called an "organic act".

American Samoa, alone, is an "unincorporated and unorganized" territory. It is "unincorporated" because, like Guam and the U.S. Virgin Islands, the provisions of the U.S. Constitution do not apply in full to this territory. It is "unorganized" because, unlike Guam and the U.S. Virgin Islands, the government of American Samoa was not established by Congress though an "organic act" but by local legislation enacted by the Samoans themselves.

In the new hierarchical, political structure created by Congress since 1952, these eight U.S. territories -- in violation of the U.S. Constitution -- have greater powers than the states of the Union.

The most important power which Congress has awarded the territories is control over immigration, a power which has been denied to the states since 1875 when the federal government established direct regulation over immigration.[104] Recognizing the negative impact immigration can have on the demographics of a land, Congress has given American Samoa, the Federated States of Micronesia, the Marshall Islands, the Northern Marianas, and Palau the right to control immigration to their territories so that those islanders can preserve their respective ethnic, racial, and cultural identities. For exactly this reason, Guam has been lobbying Congress for years for this same power.

Congress has also permitted American Samoa[105], the Federated States of Micronesia[106], the Marshall Islands[107], the Northern Marianas[108], and Palau[109] to enact land alienation laws -- i.e., to place

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restrictions on the ownership of local land based on race. In order to own land in the Federated States of Micronesia, the Marshall Islands, or Palau, one must be a citizen of that particular "republic" which, in effect, means one must belong to a specific ethnic group. One must meet a prescribed definition of island "descent" to own any land in the Northern Marianas or most land in American Samoa. Guam has also been lobbying Congress for the power to enact land alienation laws as well. Such racial restrictions on land ownership violate the equal protection clause as well as the privileges and immunities clause of the 14th Amendment, and the just compensation clause of the 5th Amendment.

Congress grants each of the three "free associated states" -- the Federated States of Micronesia, the Marshall Islands, and Palau -- their own separate citizenship. But does Congress have the constitutional power to "terminate" a territorial status -- in this instance the United Nations Strategic Trust Territory of the Pacific Islands -- in such a way that the former territory continues to be legally "associated" with the United States and a recipient of federal programs, while its inhabitants legally become citizens of a foreign country? This violates Article I, Section 8 of the U.S. Constitution which stipulates Congress has the power "To establish an uniform Rule of Naturalization".

Congress grants these eight territories -- American Samoa, Guam, the Federated States of Micronesia, the Marshall Islands, the Northern Marianas, Palau, Puerto Rico, and the U. S. Virgin Islands -- their own separate representation in international organizations. For instance, all are members of the International Olympic Committee. In addition, the Federated States of Micronesia, the Marshall Islands, and Palau are members of the United Nations; American Samoa, Guam, and the Northern Marianas are members of the South Pacific Commission; and Puerto Rico has membership and the U.S. Virgin Islands observer status in the Caribbean Economic Community. Such marks of sovereignty are denied to the states of the Union. Article 1, Section 10(1) of the U.S. Constitution proclaims "No State shall enter into any Treaty, Alliance, or Confederation;...No State shall. . . enter into any Agreement or Compact. . . with a foreign Power". If such powers are unconstitutional for a state, when did they become constitutional for a territory?

Congress permits the Northern Marianas to violate proportional

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representation in the composition of the upper chamber of its legislature.[110] Instead, equal representation is provided the islands of Rota, Tinian, and Saipan even though the population of Siapan is six times greater than that of the other two combined. Therefore, there is one Senator for approximately every 4500 residents on Saipan, every 400 residents on Rota, and every 250 residents on Tinian.

This violates the equal protection clause of the 14th and the 15th Amendments. It also violates the ruling of the U.S. Supreme Court in *Reynolds v. Sims* (1964) which mandated "one person, one vote". Both chambers of a bicameral legislature must be apportioned on the basis of population according to the Court, otherwise an individual's vote has been "in a substantial fashion diluted." This ruling expressly declared "historical, economic, or other group interests, or area alone, do not justify deviation from the equal proportion principle."[111]

Congress permits American Samoa to limit membership in the upper chamber of its legislature to village chiefs (matai) chosen according to Samoan customs.[112] This violates the privileges and immunities clause of the 14th Amendment by restricting the office of Senator to the Samoan nobility. Since Congress is, hereby, granting official recognition to that nobility, the composition of the Senate of American Samoa further violates Article 1, Section 9 of the U.S. Constitution: "No Title of Nobility shall be granted by the United States".

Finally, Congress has granted American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands and even the District of Columbia the right to send delegates to the House of Representatives who can vote in subcommittees, full committees, and caucuses of that chamber. This practice violates the 14th Amendment. The voting power of the citizens of the 50 states -- "one person, one vote" -- is substantially diluted as the voting power of their House representatives on the affected committees and caucuses has been adulterated. Although the delegates from these five "territories" do not vote on bills before the full House, by voting in the sub-committees, full committees, and caucuses they can determine what bills actually make it to the floor of the full House for such a vote.

Today, the words written by John Jay in *The Federalist Papers* to describe the United States of 1787 -- and which accurately described the United States from 1787 to 1965 -- no longer apply. For under the unrelenting pressure of Third World immigration, bilingualism,

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and multiculturalism, the United States is ceasing to be Jay's "one united people, a people descended from the same ancestors, speaking the same language, professing the same religion, attached to the same principles of government, very similar in their manners and customs".[113]

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Country Risk Analysis, International Banking and the Developing Countries

Shah M. Tarzi
Bradley University, Peoria, Illinois

The methods by which private banks assess the risks involved in lending to the sovereign governments of Less Developed Countries (LDCs) and Developing Nations are examined, and a new typology is suggested whereby bankers might improve their ability to make efficient risk assessments on a comparative basis.

Key Words: International Banking, LDCs, Debt Risk Evaluation

The debt crisis of the 1970s and early 1980s was largely brought under control by the late 1980s. However, a renewed interest in country risk assessment has arisen as a result of the recent Asian crises and the fact that five countries that used to be the biggest debtor states in the previous decades – Argentina, Brazil, Chile, Mexico and Venezuela – are among the leading emerging markets in Latin America. In addition to capital flows to these countries through mutual funds, the central banks of these states have once again been borrowing on the international markets. Similarly, since the reunification of Germany and the collapse of the communist system, Poland and Hungary have been recognized in the international financial markets as states that belong to the emerging markets group. These countries too have accelerated borrowing on the international markets. A preliminary look at some of the causes, and dynamics of the international debt crisis and assessment of sovereign risk is therefore warranted.

In the early 1970s the total debt of developing countries was less than 100 billion dollars. Less than two decades later it had risen to more than a trillion dollars. A complex set of factors motivated banks to loan almost unprecedented sums of money to the developing countries and prompted country borrowers to engage in what may be characterized as a "borrowing frenzy." For multinational banks, lending to developing countries was a natural extension of movements underway in international financial markets. Reduced credit demands, fierce competition in the traditional domestic markets and the

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development of Eurocurrency deposits provided impetus for banks to lend abroad. Another factor that pushed international banks to lend vast sums of money to leading LDCs includes the desire of many banks to forge long-term relationships with newly industrializing Third World countries. (Mexico, Brazil and Argentina received over half the loans to non-OPEC developing countries.) In addition, banks now used margins over the London Interbank Offered Rate (LIBOR) in the pricing of loans; they reduced some of the interest-rate risk in short term-term deposits to fund medium-term loans, they included cross-default clauses in loan agreements, thus placing all bank claims on an equal footing; and they used the syndication of credits.

A variety of economic, political and legal reasons enticed country borrowers to pursue foreign loans. First, both domestic firms and governments needed access to capital in order to increase income or exports. Second, foreign loans eased adjustment to economic slowdowns or temporary worsening of economic prospects such as, for example, a drop in export income, or, for another example, a drop in oil exports. Country borrowers used foreign loans as the vehicle for solving short-term problems of current account deficits. Third World governments also borrowed for political reasons. Loans enabled them to retain and consolidate power and to ease the political pressure arising from demands to sustain an expected measure of economic welfare for the population. Country borrowers borrow on the basis of their capacity to earn enough from future income and exports to pay out foreign loans.[1]

Bank lending to developing countries grew at an annual rate of 20 to 25 percent throughout the mid-1970s until the early 1980s. Lenders appeared not to be concerned with the risk associated with international lending. With interest rates below the rate of the debtor's economic growth, banks could lend new money so that country borrowers could repay old loans with a degree of confidence. When export growth rates are above the interest rate, as was the case in the 1970s, debt is lower than exports growth. International bankers could lend money to industrializing developing countries without worrying about a rise in the debt-to-export ratio. Consequently, borrowing countries were not carefully scrutinized.

Tight monetary policies in the United States and other industrial countries in the 1980s caused a sharp rise in real interest rates, which led to falling export prices and deteriorating terms of trade in the

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developing countries. Consequently, export earnings in several major debtor states collapsed. In August 1982 Mexico announced that it was unable to service its external debt of approximately 80 billion dollars. In the wake of Mexico's financial difficulties, international bankers' confidence evaporated and international lending came to an abrupt halt. International lenders learned an expensive lesson about the nature of sovereign debts and the risks associated with sovereign lending. Specifically, that lesson was that sovereign debt in Mexico is fundamentally unsecured because Mexico's oil wealth can not be collateralized. The repayment of loans became in large measure a function of the ability and willingness of the government of Mexico to impose austerity measures on the population so as to save income for payment to the lenders.[2]

The need to analyze the uncollateralized nature of sovereign debt, the nature of rescheduling agreements, the risk of a bank panic, default, repudiation of debt, and other factors gave a dramatic boost to country risk and sovereign risk analysis as an integral part of international lending and international debt management. Banks now developed a variety of methods and techniques to analyze and predict the creditworthiness of borrowing countries.

This article provides first a preliminary picture of various approaches to country risk analysis and commentary on how country risk assessment evolved. Second, an alternative scheme that draws on the strengths of other works and yet seeks to overcome some of the drawbacks associated with risk assessment methodologies will be presented. However, before we begin, for purposes of clarity, a brief exposition of the concept of country risk is in order.

The Attributes of Country Risk

A variety of definitions have been offered for country risk. We will refer to those that tend to promise an understanding of the nature of country risk and country risk assessment. According to one authoritative study, country risk may be defined as "the possibility or threat that sovereign borrowers of a particular country may be unable or unwilling to fulfill their foreign obligations for reasons beyond the usual risks which arise in relation to all lending."[3] The risks associated with lending to foreign governments is great, as there may be no legal redress against a sovereign borrower that reneges on its external obligations. However, this definition is somewhat limited in

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that it emphasizes sovereign risk: the risk of lending directly to the government of a sovereign nation. Loans to private borrowers that are guaranteed by governments will be excluded. This also leaves out risk associated with private-sector credits, presumably because here the danger is the borrower's inability to pay.

In reality, whenever a developing country is unable to meet its external debt obligations, the ability of the private sector to gain access to foreign exchange to pay off its debts is severely hampered, and private sector borrowers are placed at a disadvantage in relation to the government. To account for these exigencies, we have adopted the broader definition offered by P. J. Nagy. According to him, a country risk is "... the exposure to a loss in cross-border lending caused by events which are, at least to some extent, under the control of the government of the borrowing country."[4]

The above definition takes into account the difference between purely commercial risks and country risks that involve private-sector credits. In the later case the cause of the materialization of risk is under the control of the government of the borrowing country. Thus, cross-border lending is part of country risk. This definition also includes sovereign risk – the risk that the government at some stage will be either unable or unwilling to meet its obligations.

Transfer risk, which is that private-sector borrowers are unable to obtain the necessary foreign exchange to service their foreign debt due to their government's actions, also falls under the rubric of country risk. For example, even though a local enterprise may be generating a cash flow in local currency sufficient to meet debt-servicing obligations, when a government depreciates its currency to ease its debt-servicing problem, this action makes it difficult for the local enterprise to service its debt with hard currency. Similarly, a rise in the local currency interest rate engineered by the government might ease the public sector's debt-servicing problem. However, such an action will also weaken the financial condition of private-sector borrowers. Likewise, interbank lending is subject to transfer risk because political and economic developments in the borrowing bank's country of origin could impact interbank claims.

Inherent in cross-border lending are the unusual legal characteristics of international lending. Specifically, legal recourse against a defaulting government offers little protection to the lender. Thus, a suit brought in the courts of the borrowing country may

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either be thrown out of court or doomed to failure without an enforceable judgment. The disciplinary mechanism in cross-border lending rests on sanctions, not legal remedies. As one authoritative study has stated, "Without legal redress, country borrowers and bank lenders are bound together not by enforceable contractual relations but by implicit threat: the lenders' collective threat to exclude a defaulting borrower from international capital markets and the borrower's threat to default if new funding should be denied."[5]

As we shall see later, the definition presented above does not preclude the incorporation of countrywide risks that affect loans to government or private borrowers. The most important of these macro factors that would affect the creditworthiness of the borrower are: major devaluation, major recession, major shift in economic policy, civil unrest, and discrimination against foreign companies.[6] These aspects of country risk are more pronounced and crucial for multinational companies. In contrast, country risk in international banking are primairly concerned with sovereign and transfer risks.

In short, country risk materializes when a country is unable to meet its debt-servicing commitments. Later in this study we will introduce the specific types of country risks and discuss how to analyze their various forms. The creditworthiness of borrowers in a given country is not only a matter of credit risk but also a political risk. The international banking industry uses a variety of techniques and models to examine and analyze these and other types of political risk. These are presented below.

Methods and Approaches to Country Risk Analysis

Most of the methods designed to determine the creditworthiness of borrowing countries were developed at the height of the cross-border lending period in the 1970s. Lenders were concerned about the possibility of debt-servicing problems and default, among others. A plethora of approaches developed which range from strictly qualitative and descriptive evaluations which omit statistical analysis to sophisticated quantitative methodologies, including econometrics, scenario building, and discriminant analysis.[7] Below, we will provide a brief overview of some of the approaches currently in vogue in the international banking industry.

Country Evaluation Reports

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One of the most common approaches is the preparation of country evaluation reports without structured formats. Large international banks usually have an Economics Department which is assigned the task of preparing political risk and country risk studies.

Economists, and sometimes political scientists, examine in detail the various aspects of risks; for example, debt liquidity, foreign exchange and other economic and political factors in a particular country. Putting the economic and political situations together, a view is formed as to whether a country is "good risk" or "poor risk." The major purpose of these studies is to help the bank's lending officers assess risks and opportunities. Another is to inform senior management about economic and political conditions in the countries where their banks operate so that they can make informed decisions when they set country loan limits.

Since a definite theoretical framework that compares and contrasts countries is not applied, the analytical content varies from country to country. Therefore, it is difficult to make cross-country comparisons. An additional disadvantage of this method of evaluation is that it tends to be retrospective and cannot offer much insight into signaling the future country risk to corporate lending officers who may know relatively little about the country they intend to lend to. Often the terms "good risk" and "bad risk" are too broad and general to determine country credit limits, to authorize lending or to enable lenders to calculate the risk-reward ratio.

Qualitative Country Spread Sheet Analysis

A standard format is used to evaluate economic and political factors that could cause country risks. The economic components of the country spreadsheet include "Internal Economic Indicators." These are broken into the size-of-the-economy indicators (GDP, GDP per capita, etc.), growth indicators (GDP growth, unemployment rate), and inflation indicators. Some analysts also examine the share of investment in national income. The higher the share the more likely it is that foreign capital is used for investment rather than for consumption. This is considered positive.

Section B of the standard format gives a detailed account of the balance-of-payment position. The last four components of the spreadsheet include an examination of foreign assets, debt structure (public and private and their maturities), gross new debt and a variety

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of debt indicators such as debt-service ratio, debt as a percentage of GDP, the debt-export ratio, foreign assets as a percentage of external debt, and other factors. Together these four components of the spreadsheet provide an idea of how creditworthy a country is.

The advantage of this structured format is that it tends to be more rigorous. It offers a standardized format with well-defined scope and includes some degree of statistical analysis. Consequently, it is possible to make cross-country comparisons. The major disadvantage of this system is that the cause-effect relationship between the risk factor and the political risk event is not clear. For example, it is difficult to understand with any degree of clarity the linkage between debt-structure and default. Furthermore, the spreadsheet analysis ignores important aspects of country risk because it leaves out a wide range of economic and political variables.

Country Risk Checklist Systems and Questionnaires

The purpose of checklist systems is to provide a checklist of statistics or questions which need to be answered about a borrowing country's creditworthiness before the final lending decision is rendered. Checklists and questionnaires can include both specific indicators and general questions which need to be answered subjectively . A checklist may be used as a supplement to the country risk report or can replace such a report. Usually checklists contain more variables than the country risk spreadsheet. The score for each variable is aggregated into a summary rating for the country.

Some banks use comprehensive country risk questionnaires. The use of questionnaires is not limited to international banks, however. International oil companies and major manufacturing firms with overseas products and marketing capabilities also use these questionnaires from time to time. The content of the questionnaire resembles the international risk rating scales developed by international consulting firms such as Business International, and Frost and Sullivan. The data from these questionnaires are analyzed for the purpose of determining a country's investment climate.

The questionnaire is designed to generate historical data, such as the average rate of export growth over the last ten years, as well as economic projections. It also contains questions about export products and export market diversification. Quantification of social and political factors is another important part of the questionnaire.

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A typical question is, "How would you characterize the effect of dissenting political opinions, organizations, demonstrations or riots on the political or economic stability of the country?"

Use of Quantitative Systems

A variety of statistical procedures are now in vogue, ranging from a simple statistical rating system to complex discriminant analysis, logit analysis, principal component analysis and econometrics models.

Scoring systems is one of the well-known methods of systematically reaching a country risk rating with a high degree of objectivity.[8] Scoring systems also have specific disadvantages: (1) Variables that are difficult to quantify are often not included, thereby excluding other factors that may be very important. As a result, "objectivity" is compromised. (2) Since it is difficult to determine the relative weight of various factors, some factors may be weighed more heavily than others, thus skewing the results. Large international banks have access to highly-trained economists and political analysts and use sophisticated statistical methods to predict debt-servicing problems. Discriminant analysis and logit analysis are two widely used methods. These techniques are employed on the assumption that they offer the most objective, systematic and comparative method to assess a country's creditworthiness. Essentially, a weighted set of independent variables is identified to predict the occurrence of country risk events such as rescheduling, and other events. Types of risks that concern the lender are treated as dependent variables. The probability of occurrence of the risk event is generated. These techniques then make use of a sample of countries over a certain time-frame to identify those that have suffered debt-servicing problems and those that have not.[9]

In short, these techniques enable an analyst to determine the probability of forced rescheduling by using several economic factors such as causal or independent variables. These techniques have the advantage of being more objective than other approaches outlined earlier, as each determining variable in the model is statistically chosen for significance.

Statistical systems have a variety of disadvantages as well. There is a degree of arbitrariness to grouping countries into rescheduling and non-rescheduling countries. For example, a rescheduling country

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such as Mexico catapulted to the other group, the group of non-rescheduling countries, in part because of the firming of oil prices and other refinancing arrangements. More importantly, complex root political, economic and institutional causes that cannot be reduced to a few relevant variables generally underlie rescheduling. Therefore, it is quite possible that these formal models will fail to predict rescheduling and other country risk events. Also, the seriousness of a particular risk event will vary from one country to another. Moreover, in the absence of a substantive theoretical foundation, quantification does not provide the kind of insight that proponents of these models attribute to them.

Since social and political factors are not easily quantifiable, these factors are fundamentally neglected in these and other statistical methods. Finally, certain systemic global developments in the international financial system, rather than "poor" domestic economic performance, might have greater impact on whether a developing country runs into a debt problem. For example, the general cutback in international lending that occurred in 1982 in the aftermath of the Mexican financial crisis created certain new debt-servicing problems for some debtors.

Finally, statistical systems suffer from certain methodological problems. The most obvious one is the small sample size. Only a handful of countries have been the recipients of large international loans. The sample size is simply too small to develop an accurate estimation. Further, analysis and results of statistical models that contain a large number of independent variables usually suffer from the problem of multicolinearity of independent variables.

A Proposed Alternative Typology

My primary concern in presenting a typology is not to offer an alternative to existing methodologies, rather it is to offer a scheme that would overcome some of the defects of current methods of risk evaluation. It is not to be construed as a new approach, rather it is to be regarded as a supplement to existing methods. I believe that analysts who write country risk reports will find it especially useful as an annex to such reports and to support subjective insights with a systematic working plan. It is designed to allow corporate analysts to evaluate country risks for a specific country, and to draw comparison internationally between countries, or to classify and rank-order

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nations according to their level of risk. As such, the proposed typology will strengthen existing qualitative methodologies but unlike statistical systems, it does not supplant the original insights of traditional quantitative and structured qualitative analyses.

The primary assumption underlying my intended scheme is that corporate analysts, lending officers, and in-house economists as well as overseas branch mangers are in a better position to arrive at accurate judgments about the likelihood of country risk than are outside consultants or academics. My intention is to enable corporate analysts systematically to gather relevant information, rigorously analyze data, and make determinations about risk levels using a precise analytic scheme. The proposed schema, therefore, is nothing more than data collection and a sorting technique that allows the user to make systematic subjective judgments about the future. As such, it fits very well within the existing trend in the industry toward the use of non-quantitative systems which incorporate empirical data for enhancing analytical rigor.

The first step in analysis is to have a working definition of country risk. Earlier, a broader definition was offered. Now we can proceed to quantify this definition. Risk can be defined as the multiplication of the size of a potential loss by the probability that the loss will occur. If we assume that the probability of loss is identical for a large loan and a small loan, the large loan entails a high risk because potential loss grows with the size of loans. On the other hand, a small loan with a greater probability of loss may represent a higher risk than a larger loan with small probability. Loss is the difference between the discounted present values of the expected and actual net income flows during a given period, expressed as a percentage of the discounted present or expected cash flow during the same period.[10]

To be more precise, in evaluating country risk we also need to know the size of maximum possible loss. The maximum possible loss that an international bank may suffer could depend on the type of risk, the moment when the risk materializes during the lifetime of a debt, and the type of borrower.[11] Default, rescheduling, renegotiation, and transfer-risk are some of the salient types of risks associated with foreign lending. The next step is to specify the types of risks involved.

An international bank faces the risk that loans to a foreign

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government or to a private party will not be repaid. The debtor, for instance, might not make any service payments because it does not recognize the debt. This situation may be characterized as repudiation. Similarly, the borrower might default, that is, refuse to make service payments because it cannot or does not want to pay. In both instances, the international lender loses the principal not repaid and the interest payments foregone.

Another type of country risk occurs when the borrower renegotiates the debt. For instance, the debtor might ask for a lower interest rate, a narrowed spread or ask for forgiveness of portion of principal. Under these circumstances the creditor will receive less than originally agreed. More likely it might be necessary to reschedule on terms less favorable to the creditor or adopt a moratorium on repayments. In both instances, the terms of the loan are lengthened and profitability from the loan is reduced as the costs of negotiating the rescheduling or the moratorium are added. In a worst case scenario, the debtor might temporarily fail to make scheduled payment because of inability or unwillingness. This type of country risk is often referred to as technical default. Another type of country risk is associated with the use of local currency. For instance, a branch of a bank engaging in local currency operations may become unprofitable, or the capital of the branch, based on local currency, may become impaired. Country risk could also materialize as a result of inappropriate economic policies of the host government which spoil the domestic economy or lead to balance-of-payments crises. These situations might result from excessive domestic credit creation. Sometimes economic shocks external to the local economy, such as the doubling of petroleum prices which occurred in the early 1970s, or a sudden drop in export prices, could pose major risks. Whether any of these types of risk events will occur is a function of the debt-servicing capacity of the country. The later is in large measure a function of external liquidity as well as of a variety of monetary, fiscal, general economic and political variables: (1) Monetary Causes: The analyst's task is to analyze carefully the trend of the government's budget. If the government's budget deficit increases, it is highly likely that this will be financed through the creation of new money as the government continues to borrow from the central bank. As a result, the supply of money will increase faster than the demand for money. This situation can result in high inflation and a

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deterioration of the balance of payments since higher domestic prices will cause an upsurge in imports and a decline in exports. In these circumstances, borrowing from abroad accelerates. The ultimate result is overextension and debt-servicing difficulties.[12] The risks of rescheduling, renegotiation and other related types of sovereign aid will increase as a result

Conversely, if budget deficits are on a downward path or, better yet, if the budget is in surplus, the economy will benefit from a lower inflation rate, provided that the government pursues a tighter monetary policy. In such circumstances the country's balance of payments position will improve. The ultimate result is that the country's capacity to service its external debt will be enhanced. The probability of the various types of risks referred to above will decline as a result.

The fundamental rationale underlying a monetary assessment of country risk is fairly straightforward. If the creation of domestic money exceeds the demand for money in the economy, the excess money will flow abroad, resulting in a deteriorating balance-of-payments position. Contrariwise, if the domestic demand for money exceeds domestic money creation after a time lag, the difference will be made up by inflows of money from other countries. This will result in an improvement of the balance of payments and an enhanced debt-servicing capacity.

In short, a liquidity crisis can cause a variety of risks. Inability to borrow abroad because the government of the debtor country cannot obtain further loans from other governments, or the IMF, due to deteriorating debt-servicing capacity can easily lead to country risk. Usually the low credit rating of the borrower's country makes it difficult to borrow on the international financial markets. (2) General Public Policy and Fiscal Policy Crisis: The effectiveness of the government's fiscal policy is another variable to examine. Accordingly, the analyst should emphasize: (1) the sources and uses of funds; (2) the impact of regulatory policies in the financial sector; (3) exchange rate policy and (4) the uses or abuses of concessionary finance by the government. Introduction of exchange control is a key issue that could divert attention from domestic political, social and economic difficulties and the possibility, albeit small, that the debtor country might be occupied by a foreign power.

As we noted earlier, for each of these different causes of risks,

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the analyst must try to assess the likelihood that the political risk event will occur as well as the time-frame for it. Further, the analyst must then connect the risk-factor to the specific type of risk by answering two key questions: If the adverse event does occur, what then is the likelihood that a specific risk event – renegotiation, rescheduling, default, etc. – will occur? And when is it likely that this risk event will occur?[13]

A few examples will help to illuminate the cause-effect relationships of events that lead to debt-servicing problems presented in the proposed typology. For instance, in the case of Venezuela, external factors such as the oil price increase and the fall in commodity prices set the stage for the difficulties this country faced in servicing its foreign debt. However, the key factors in this regard were internal. Economic mismanagement, combined with inept fiscal and monetary policies in particular, played a key role in Venezuela's debt-servicing difficulties Similarly, the debt-servicing difficulties of Turkey, Mexico and Jamaica were aggravated by the government policies of maintaining an overvalued exchange rate. With regard to Mexico, holders of unguaranteed private debt faced debt-servicing problems as the government's action precipitated large-scale, sudden devaluation of the currency.

Monetary mismanagement is often the key causal factor. Monetary policies were the culprit in Turkey, Zaire and to a lesser extent, Mexico and Jamaica. These countries boosted the supply of money as part of a strategy of inflationary financing of economic development, creating debt-servicing difficulties in the process. The cases of Zaire, Jamaica and Turkey also shed light on how economic mismanagement by the government at home in conjunction with an adverse external environment can push a perfectly solvent country to bankruptcy in the span of a few years.

In brief, the above typology is intended to facilitate analysis of cause-effect relationships in country risk evaluation. By analyzing, for instance, the monetary, fiscal, economic and political factors that give rise to debt-servicing problems, it is possible to arrive at a preliminary judgment regarding the likelihood that reschedulings, renegotiation, moratoria and other types of country risks will occur. For instance, an oversupply of money could cause a deteriorating balance-of-payments position which in turn would make it difficult to borrow abroad. Inability to borrow abroad could lead, then, to renegotiation or

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rescheduling. On the political and national security front, one or more types of country risks will materialize if the government is taken over by an extremist group, or the productive capacity of the country is destroyed by civil war, revolution, or the country is occupied by a foreign power. Such circumstances can lead to change in government, destruction or outright nationalization of assets, creeping nationalization, fall or slowdown in growth of earnings, introduction of exchange controls and other types of risk events. These risk events can, in turn, lead to a technical default, renegotiation, moratoria, rescheduling, etc.

Clearly, an accurate analysis of the cause-effect relationship also requires good knowledge of the targeted country's political, economic and social structure and institutions, including the regulatory policies and the ideological outlook of the political elite. An analyst must also muster a sense of appreciation for the general and political culture as well as the past and current political and economic trends of the society. As such, it is inherently a difficult enterprise.

The countries referred to earlier also demonstrate the mistakes international banks made in evaluating the potential for debt-servicing difficulties. Indeed, the experience of Zaire, Jamaica and Turkey demonstrate how these countries went from solvency to bankruptcy in less than five years. This means that the time frame available for banks to respond is very short and that in order to limit losses, banks need to react quickly. One major mistake that international banks made was lending for a period of nine years, for example, from 1971-79, large amounts to some countries, notably Poland and Zaire, without the benefit of reliable data on the state of the economy, the hard currency balance of payments and the hard currency debt. Once a few large banks extended loans to Poland and to such small and exotic countries as Jamaica and Zaire, the rest followed suit. This prevalence of a "follow the leader" attitude robbed international banks of a systematic risk-assessment policy.

Finally, as lending to sovereign governments speeds up, banks can no longer accept the premise that debtor governments will take appropriate remedial action should difficulties arise. Rather, they need to undertake a hard-headed assessment to determine whether and to what extent such governments have the strength and the determination to implement remedial programs. To arrive at this judgment requires a systematic country risk evaluation.

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The Future of the Gulf

Dr. Gawdat Bahgat
Indiana University of Pennsylvania

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BOOK REVIEW ARTICLE

Reflections on Global Capitalism

Dwight D. Murphey
Wichita State University, Kansas

One World, Ready or Not: The Manic Logic of Global Capitalism
by William Greider
Simon & Schuster, 1997
$27.50, Hardback, 528 pages
ISBN No. 0-684-81141-3

Next to Jeremy Rifkin's *The End of Work*, William Greider's *One World, Ready or Not* is perhaps the most substantive book on the market today about the changes that are taking place in the world's economy. The details he provides are electrifying. His theoretical analysis is less satisfying, but even here there are points of definite value; and the policy suggestion he makes at the end of his discussion is potentially of great importance.

In what follows, we will note, first, some of the many developments about which Greider provides such fascinating detail. Then, second, we will examine his analysis to see what is valuable in it and what, in this reviewer's opinion, is not.

Detail About On-Rushing Events in the Global Economy

Increasing presence of low-cost Third World labor, both skilled and unskilled, in competition with higher-cost labor in the western economies.

Greider tells of "poor people who dwell in marginal backwaters doing industrial work of the most advanced order ... making complex things of world-class quality." With the improvements in transportation and electronic communications, this labor is fast coming into direct competition with workers in the United States and Europe, since for most practical purposes oceans no longer separate them. Greider speaks of graduate engineers in India who earn less than one-sixth of what American engineers are paid. In China, an engineer makes $60 a month, leading Greider to speak of "the potential catastrophe for high-wage industrial workers in the advanced nations."

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The competitive pressure globally for lowest-cost production.

The rapidly increasing global competition is creating "dramatic opportunities both to reduce costs and to increase output." This "creates pervasive downward pressure on prices," putting profit margins in jeopardy unless ever-lower costs are achieved. Each enterprise seeks a "continuous suppression of costs, including labor costs." Businesses continually restructure to become "fast, lean, flexible."

"*Peasant-pressure*" *on the world labor supply.*

"At the bottom of the global wage ladder is a seemingly inexhaustible supply of new recruits: peasants leaving the bleak circumstances of rural subsistence...." An example: "One hundred million rural migrants [are] said to be roaming China's countryside in search of jobs."

The secular tendency toward world-wide wage equilibrium.

As the world's workers are thrown into competition with each other, the pressure is for wages to fall in the advanced economies such as the United States and to be bid up elsewhere (although, we might add, the almost infinite pool of workers at varying skill levels in the Third World dilutes this pressure for wages to rise there, so that what is in the offing is rather a fall of advanced-economy wages to an equilibrium that is not much higher than the billions of people in the Third World already earn). This is a process that plays itself out in one workplace after another, such as when "Caterpillar demanded drastic wage reductions at [its] midwestern factories" and when employees, feeling insecure in their jobs, become reticent about seeking higher wages.

The displacement of workers.

Greider tells how between 1971 and 1991 the world's 500 largest multinational companies increased their sales sevenfold – while not increasing their employment at all. In the automobile industry, the number of hours of labor that is needed to manufacture a car has fallen drastically since 1979. The result? "U.S. auto employment shrank by 180,000 jobs, most in assembly work."

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The displacement of firms and industries.

Whole industries are packing their bags to leave Europe and the United States, seeking the lowest-cost environment. Greider tells how in ship-building "traditional ship-building countries contin[ue] to lose jobs and market share," while the industry is booming in Brazil, China and Taiwan. Volvo has established a tour bus assembly line in China; Bausch & Lomb produces contact lenses in India; Colgate-Palmolive makes toothbrushes in Colombia.

The accelerating growth of the world capital market.

"Finance capital...has accelerated its movements around the world at an astonishing pace." This includes international bank loans, bond financing, stockholdings, and currency exchange. As economic theory would predict, capital flows to the highest return. An official at Tudor Investment Fund is quoted as saying, "If the return on capital is 30 to 40 percent in China and 7 percent in the United States, guess where the capital is going."

Increasing importance of multinational corporations.

Even Sony is ceasing to be distinctively Japanese as it sets up factories and employs workers "from Southeast Asia to Mexico." We think of Boeing as American, but a Boeing 777 is put together through the combined efforts of production facilities in twelve different countries; and Boeing is rapidly shifting much of its production to countries other than the United States, such as to China and Japan. The corporations are composed of employees from many nations, and the management comes to think in terms of the world rather than of any single country.

Self-protective responses by firms and industries.

Everywhere one sees the forming-up of alliances, mergers, cartels, and administered prices as firms and industries seek urgently to keep abreast of competitors' ever-lower costs. Greider tells us the reason for downsizing: to lower "the break-even point in their capacity utilization...so they [will] make a profit even in bad times."

The undercutting of national sovereignty.

"What is forming now is an economic system of interdependence designed to ignore the prerogatives of nations." The past few years

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have seen a decontrol of the movement of capital in and out of a respective country. Capital flows are of such size as to dwarf central bank reserves. Tax havens attract capital, and countries vie with each other to offer the most generous incentives by way of low taxes, inducements and less regulation.

The polarization of wealth.

Of the immense wealth that is being created, most is not going in wages to the great mass of people, but is going instead to the owners of capital, including the bondholders who own the rapidly-increasing world debt.

The problem of purchasing-power in relation to supply.

The result of all this is that supply is outstripping demand, a fact that has so-far been obscured by the United States' willingness to incur vast trade deficits, sopping up the excess production. Greider warns, however, that the United States' serving as "a buyer of last resort" cannot go on forever. In the meantime, debt goes up and governments are starved for needed revenues. The worldwide demand for the goods and services that are possible is contingent upon getting earnings to large numbers of people. This, however, is stymied by the stagnation of earnings going to most people and the increased flow to the owners of capital. The long-held truism that wages are tied to productivity has been broken, with productivity going up and wages stagnating.

Greider's Analysis: a Critique

Greider is certainly right when he points to the polarization of income and wealth and then to the problem of the disparity between the amount of goods and services that are coming available and the purchasing power that people (don't) have to purchase them. If recent economic prosperity obscures these elements, it should be kept in mind that the world is only a small fraction of the way into the technical changes that are on the immediate horizon. Many of the changes are already here, with simply the implementation remaining only partial. As they grow in number and implementation, they will continue the trends Greider traces so well.

He falls short in some areas, however. While he talks about "overproduction," he doesn't seem fully cognizant, as Rifkin is, of the

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exponential increase in productivity that is coming through computerization, robotics, biotechnology, and other scientific advances. To the contrary, there are times he speaks of stagnating growth. There are reasons that economic commentators speak of growth as being slow in the advanced economies, but that is more than likely a chimera caused by inadequate statistics (which have not been able to keep abreast of the new types of quality improvement in many things); or, in any event, slowness of growth can hardly be thought the long-term trend.

Greider sees displacement of workers, firms and industries from the cost-cutting discipline imposed by worldwide competition, but he doesn't seem fully cognizant of its implications. Computerization, robotics, biotech – these things hardly intrude into his discussion. Their displacing potential is enormous compared to anything the world has seen so far.

His analysis is based, instead, on the standard pillars of Marxist economic analysis that have been around for a century. These tell us that capitalism, by the very nature of the "contradictions" (a favorite Marxist word that Greider likes to use) that inhere within it, suffers from a chronic overproduction and underconsumption based on a lack of purchasing power. He, and his predecessors in intellectual title, could just as well (as they did) write this same critique forty, sixty, eighty or a hundred years ago. It is a critique that simply has not been sound; the market economy has gone from success to success and enriched hundreds of millions of people beyond anything any prior age thought possible. Indeed, it has been perverse for Marxists to insist on capitalism's failures when it has proved the world's greatest success story.

It is ironic, then, that events are turning this on its ear. The global economy in the Information Age is actually creating the polarization and purchasing-power-gap that Marxism has so long postulated erroneously. Thus, Greider proves essentially to be right, with his fault lying primarily (and ironically) in understating the problem (despite the splendid detail with which he describes the problems as he sees them).

And so it is that a Marxist economic analysis and a pro-market, classical-liberal analysis come head-to-head, and must grapple with the same problems. Most market theorists will, predictably, continue to deny that there are problems; and in their yearning for ideological

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consistency they will embrace a wrong-headed position just as reflexively as Greider, in his own ideological consistency, has, by dint of timing, been led into embracing a correct one.

It is as important now for a supporter of a market economy to address the issues of polarization-of-income and purchasing-power-disparity as it has seemed all along for a Marxist to do so.

How to do this? Greider may have a pretty decent answer, based on the thinking of Louis Kelso. Kelso, writing in the mid-twentieth century, wanted government to pay the way for everyone to become a co-owner of every conceivable type of asset – sidewalks, streets, etc. – and to receive a dividend as payment for his ownership. This was redistributive socialism dressed up to look like broadly shared capitalism, as this reviewer pointed out in an article in this journal in the spring issue of 1990. At the time Kelso proposed it forty years ago, it was the most transparent ideological fraud. Today, however, conditions have changed so much that a specific aspect of Kelso's thinking is not out of place. Much of the market dilemma would be erased if the public at large were able to become owners of shares in, say, an index fund that in turn would own diversified stockmarket holdings. (There is no reason to own part of a sidewalk, which isn't an income-producing asset; it is far more to the point to own part of a mutual fund that owns shares in the vast worldwide economy.)

Classical liberals and libertarians will oppose any redistribution by government to produce this widespread mutual fund ownership. They may today accept a system of deferred taxation while people build up their own savings that will provide a fund either for health care or old age or general support. It seems that they would have no particular ground for objection to a form of distribution that violates nobody's property rights and that doesn't depend upon taxing some to give to others. Greider points out, in the course of his discussion of Kelso's ideas, that "every year, as it enlarges the nation's money supply to meet the needs of commerce in an expanding economy, the Federal Reserve creates $30 billion to $40 billion in new money...This money is now distributed through the private banking system, lent out by commercial banks to people and businesses at market interest rates...." If, instead, the Federal Reserve bought $30 to $40 billion in shares in an index mutual fund, that would also get the new money into the productive economy for new investment, research, enterprises

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and the like, while at the same time providing something that could be distributed to citizens to make them part-owners of the economy. After a few years, the annual increase would add up to far more than a pittance. The mutual fund holdings would provide people a flow of earnings, making them less dependent on work for income in an increasingly "workerless" economy, and providing "purchasing power" to provide a market for the goods and services the economy would produce. So far as business enterprise is concerned, nothing would change from the current pursuit of earnings for stockholders.

A happy thing about this proposal is that such a mechanism would have little potential for the aggrandizement of governmental power that libertarians and classical liberals rightly fear so much. Instead of considering it "socialist" because it gives rise to "something for nothing," it would be wise to look upon it as simply part of the institutional framework that will be desirable (actually, quite necessary) for the smooth existence of a market economy, and of a free society predicated on one, in the future.

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BOOK REVIEWS

How Nations Grow Rich: The Case for Free Trade
Melvyn Krauss
Oxford University Press, New York, 1997
140 pages, $22.50, hardback

Melvyn Krauss's credentials are solid as an economist and supporter of the free market. A "case for free trade" is fully in keeping with a major thrust of much thinking on both left and right today. The predominant public philosophy of established opinion throughout the world now supports "the global marketplace." It is possible to say this despite most nations' and regions' throwing up trade barriers of one type or another as they seek to serve their local interests. The prevailing ideology leads, at least, to a ubiquitous lipservice supporting free trade. This book is an excellent primer summarizing the free trade position.

Nevertheless, there is much to criticize:

1. The argumentation is ideological rather than reflective.
2. Little respect is given to opposing views.
3. Although Krauss argues that economic science and value judgments are to be kept separate, he nevertheless draws a good many value judgments, all of them making "the consumer" the sole standard and willing to sacrifice other values such as a given nation's well-being or the economic viability of millions of people within a given country (most notably, for our purposes, the United States).
4. Much of his case is out of date, or soon will be, in light of rapidly emerging world realities.

Let's look at each of these:

Ideological Argumentation

Krauss's text is true to its name, "the case for...." It is essentially similar to a lawyer's brief for a client, in that thoughts are marshalled

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for their supportive value rather than as concepts to be objectively considered. This makes the book a polemic rather than a scholarly discussion. There is, of course, room in the world for polemics; but it is vitally important to realize the distinction between polemics and scholarship.

An example comes when Krauss defends the Japanese acquisition of U.S. assets with a *non sequitur*. His sought-for conclusion is that foreign ownership is no threat. In support of this, he tells how those investments have been unprofitable to the Japanese themselves. But this is inappropriate evidence for his conclusion, since unprofitability at any given time tells us nothing about foreign-owned assets' profitability in general.

A similar opportunistic marshalling of arguments is evident when he seeks support for his position that the North American Free Trade Agreement (NAFTA) is not causing the United States to lower its environmental standards. His supporting premise: that, under NAFTA, the United States is "exporting" its pollution-creating industries to Mexico. No one concerned about the environment would consider that a plus, but the idea that polluters are moving from the United States to Mexico (because of its lower standards) allows Krauss to bolster his main point. Here, he is willing to support an argument by undergirding it with something quite ridiculous.

He does the same thing when he argues that NAFTA will help curtail the flow of illegal Mexican immigrants to the United States. "Oh, good!," conservatives will be inclined to say. But how is the flow to be stanched? By the wages of unskilled workers in the United States being bid downward and those of unskilled workers in Mexico upward! As in the expression "any port in a storm," Krauss seems ready to use any argument to support a desired conclusion.

Lack of Respect for Opposing Views

As with so much free-trade literature, opposing views are demonized, eliminating the need to discuss them seriously. Thus, "protectionists are master spinmeisters" who engage in "the big lie." Most specifically, the points that Pat Buchanan made during his 1996 campaign are written off with a reference to "the Buchanan know-nothing Right." "Reason...may not be Pat Buchanan's forte." None of this is conducive to reasoned discussion.

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The Confusion of Science and Value Judgments – Combined With a Damaging Truncation of the Judgments that are Made

Krauss holds to a view that neo-classical economics embraces generally – that economics is a descriptive science studying certain human activities and relationships, and as such cannot itself make "value judgments."

This distinction is sound and is important in theory, but is in no sense descriptive of what most market theorists do. They make value judgments continuously, as does Krauss. They make no clear separation, as they should, between *economics*-as-a-descriptivescience and *classical liberalism* as the philosophy of a free society centered on a market economy. Since this separation isn't maintained, the philosophy often becomes clothed with the pretension that its conclusions are themselves "science." (This reviewer is a classical liberal, but has always felt that the philosophy's position must be on intellectually solid ground.)

An additional problem is that the value judgments that proponents of global free trade make are poorly chosen in relation to the needs of classical liberalism as an overall philosophy of a free society. Everything is seen simply from the perspective of "the consumer," without regard to the fact that people wear several hats, of which "consumer" is just one, and can hardly participate "as consumers" unless they are successful as earners. "In a free market economy," Krauss says, "the private consumer, and not the producer and not the government, is king. Accordingly, a consumer-based equity standard is the only relevant one." (Note, apropos the preceding paragraph here, that this is very much a value judgment and not a matter of science.) That "the consumer is king" becomes an article of faith in the prevailing free trade ideology. Since it is an article of faith, it doesn't matter to the proponent what the consequences of it may be. Millions in the United States may be displaced and impoverished by global free trade, but that doesn't count, since to notice that is to look at them (as is forbidden) from their "producer" side. Speaking of NAFTA, Krauss frankly admits that "one U.S. group likely to lose from the trade agreement is unskilled labor" and that "the resultant unemployment of unskilled workers can be mitigated only if their wages are reduced." When we recall that in any given population 50% of the public are below 100 I.Q. and have little prospect of becoming "high-skilled," Krauss's

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willing acceptance of a "wage convergence" between U.S. unskilled workers and those of Mexico (and, we might add, those of the rest of the world, including great masses of poverty-stricken peasants throughout the Third World, such as in the slums of Rio de Janeiro) is tantamount to an acceptance, in the name of his ideology, of vast personal and social distress in the United States. Market ideology as currently proclaimed cares nothing about specific people or specific nations, including the United States, except to the extent that "consumer well-being" (without considering what it takes to become consumers) may redound to their benefit. The pressing question is: Is this the best formulation of classical liberal philosophy? Does it look to the overall mix that must make up a free society?

The Rapid Obsolescence of the Global-Market Ideology

For well over a century and a half, the intellectual proponents of the market economy have been a valiant remnant manning the barricades to defend individual liberty against the attacks by a predominant alienated, socialist intellectual culture. They deserve all the credit and honor we can bestow upon them. And that is true of Melvyn Krauss and other proponents of free market ideology today.

Changing conditions are, though, introducing an immense "however." It is becoming clear that the intellectual defense of liberty that was imperative in the nineteenth and twentieth centuries will no longer be adequate in the years to come.

Why? Global communications and transportation are rapidly placing everyone, throughout the world, into competition with everyone else. It isn't just low-skilled American workers who are to be brought down to size by competition from low-skilled Third World workers; even high-skilled American workers will also find their wages undercut by competition from high-skilled, but lowly-paid, workers in other regions of the world. All American workers will feel the impact. Moreover, "computer-integrated technology" (CIT), which will need relatively little labor of any kind once it is installed, is in the process (though it is just beginning) of making obsolete the vast majority of labor, whether it be high-skilled, low-skilled, high-paid or low-paid. There is an impending crisis of distribution on the "producer" end of things. This raises the question of how all these good folks are going to become "consumers." In other words, the old "purchasing power" nemesis, which for the most part has been a

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socialists' hobgoblin thusfar in the history of capitalism, is becoming real, and must be addressed not only by the socialists who love to see "contradictions in capitalism" but also by the most devout supporter of a market economy.

But Krauss and indeed the entire "global free trade" orthodoxy see none of this. Their arguments are all predicated on more and more business-as-usual, with no perceived gap between those who will continue to be able to earn income and those who increasingly will not. Krauss argues, for example, that it is a good thing that "high-cost unskilled American labor cannot compete with low-cost unskilled Mexican labor," because this simply causes the United States' economy to shift "from lower to higher skill tasks." He doesn't see that, even now, high-skill tasks are coming under competition from high-skilled people (such as designers, engineers and computer programers) all over the world, and that those people live well in their own countries on one-fourth to one-third of the pay our high-skilled workers must receive in order to count among even the "middle class" in the United States. Nor does he see, as we have said before, that tens of millions of Americans are not capable of becoming high-skilled (even if our educational system were to snap to, which is much to be wished for, but which is also often looked to unjustifiably as a panacea to solve the earnings dilemma).

Economic Theory and Classical Liberlaism

Melvyn Krauss is a fine economist and excellent writer who supports the central institution of a free society, the market economy. The time has come, however, when all such thinkers must look at the emerging realities and ask themselves how classical liberalism, as the philosophy of individual liberty, can best be served by economic theory. If tens or even hundreds of millions of people come to be displaced within a global free market, they will no doubt adopt a "throw the bums out" posture toward those who serve as apologists for that system. Both the system and the apologists will then be repudiated. Is that what the apostles of free trade theory want? Or is it time to formulate an economic theory more appropriate to a free society under the on-rushing conditions?

Dwight D. Murphey

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The Pivot of Civilization
Margaret Sanger
Introduction by H.G. Wells
Scott-Townsend Publishers
ISBN 1-878465-27-9 304 pp. Price $20
1997 (Reprint of original 1922 edition)

This is a reprint of one of Margaret Sanger's pivotal book on birth control which played such a major role in advancing the feminist cause, with a remarkable introduction by H. G. Wells. Both the book itself, and Wells' introduction bear a remarkable relevance to contemporary world problems.

Touring the world to alert those who would listen to her to the suffering of women, burdened by constant child-birth, Margaret Sanger had contact with such diverse figures as Sir Francis Galton, Marie Stopes, Bernard Shaw, and Rosa Luxemburg. In the course of time she founded and became the first president of the American Birth Control League, a name which was later changed to the Planned Parenthood Federation of America.

But committed as she was to the suffering of poor mothers who strove to care for large numbers of unplanned children, thought much more deeply than the modern feminists – and as a result she has now come under attack as a "racist." Thus, a recent *Wall Street Journal* article ("The Repackaging of Margaret Sanger" 5/5/97) complained that in her book *The Pivot of Civilization* "she called for the extirpation of 'weeds ... overrunning the human garden'; for the segregation of 'morons, misfits, and the maladjusted'.

When Margaret Sanger was born, the world population of human beings stood at less than one billion; today it is five and a half times that number. Sanger came to realize that overpopulation promoted not merely poverty but environmental degradation, social conflict, massive disruptive international migration, and war. But she was not an egalitarian, and the prime thrust of the current attack on her memory is directed against her concern that it was the less competent inhabitants of the Western cities and of the Third World who were over-reproducing themselves. The leaders of Western society, she claimed, were following a policy of misguided charity which was promoting the production of what she termed "moron communities." There was a need, she felt, to reduce the world's

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birthrate by freeing women to make their own choices regarding child-bearing. Efforts to make birth control prophylactics available internationally, she argued, would reduce the birthrate and increase the chances that the children who entered the world would be wanted children, born of fit, competent and healthy parents.

Yet Margaret Sanger is nowhere near as outspoken as H.G. Wells, socialist and reformer, is in his Introduction to this book. In it, the great social critic declares that: "[modern science] sweeps away the venerable checks of pestilence and disease, and confronts us with the congestions and explosive dangers of an over-populated world ... we cannot go on giving you health, freedom, enlargement, limitless wealth, if all our gifts to you are to be swamped by an indiscriminate torrent of progeny. We want fewer and better children ... and we cannot make the social life and the world-peace we are determined to make, with the ill-bred, ill-trained, swarms of inferior citizens you inflict upon us... I am inclined to think that there has hitherto been rather too much personal emotion spent upon this business, and far too little attention given to its broader aspects."

Truly, the good intentions of the World Health Organization, applied without due reflection and foresight for the necessary counterguards against world over-population, are responsible for much of the misery that now abounds in Africa and the Third World. There is even a danger that world over-population may ultimately accentuate the rate of environmental destruction, bringing it to a level that will threatens the survival of the very biosphere on which all higher forms of life depend. In these circumstances, Margaret Sanger's epochal work makes excellent contemporary reading.

J. W. Jamieson

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THE ABM TREATY CHARADE:
A Study in Elite Illusion and Delusion

William T. Lee

Former CIA and DIA analyst of Soviet and U.S. missile programs

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